LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
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Deputy Legislative Auditors:
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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Retirement Funds Bond Pool, as of June 30, 2006, and 2005, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Retirement Funds Bond Pool, as of June 30, 2006, and 2005, and its changes in net asset value and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
RETIREMENT FUNDS BOND POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2006 AND 2005

		2006		2005
Assets				
Cash	$	0	$	0
Security lending cash collateral (Notes 3 and 4)		84,096,961		214,242,953
Interest receivable		22,517,028		21,273,507
Investments managed at fair value (amortized cost of $1,852,698,544 in 2006 and $1,752,825,241 in 2005)(Notes 2, 4 and 8)		1,837,044,446		1,836,304,371
Total assets	$	1,943,658,435	$	2,071,820,831
Liabilities				
Income due participants (Note 2)	$	10,412,546	$	10,375,342
Broker payable for securities purchased but not settled (Note 2)		0		12,000,000
Security lending obligations (Notes 3 and 4)		84,096,961		214,242,953
Security lending expense payable		461,928		582,309
Total liabilities		94,971,435		237,200,604
Net asset value	$	1,848,687,000	$	1,834,620,227
Units Outstanding (Note 2)		18,521,148		17,421,903
Unit Value (Note 2)	$	99.81	$	105.31

STATEMENT OF CHANGES IN NET ASSET VALUE FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net asset value, beginning of year	$	1,834,620,227	$	1,599,757,622
Value of units purchased by participants		113,200,000		219,000,000
Value of units sold by participants		0		0
Changes in fair value of investments managed		(99,133,227)		15,862,605
Net asset value, end of year	$	1,848,687,000	$	1,834,620,227

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Interest income (Note 2)	$	95,623,643	$	90,313,722
Amortization/accretion		9,000,201		7,120,260
Net realized gains		693,578		21,186,265
Security lending income		7,260,703		4,491,649
Security lending expense		(7,156,959)		(4,284,986)
Administrative expenses		(340,187)		(233,417)
Income due participants, beginning of year		10,375,342		11,798,842
Income available for distribution		115,456,321		130,392,335
Distribution		105,043,775		120,016,993
Income due participants, end of year (Note 2)	$	10,412,546	$	10,375,342

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Retirement Funds Bond Pool (RFBP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, to participate in a diversified pool. The RFBP was created on April 1, 1995, by the transfer of all fixed income and variable-rate securities owned by the state's nine retirement funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

RFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The RFBP portfolio includes securities classified as corporate, foreign government bonds, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The RFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Some RFBP REMICs are interest-only strips (IOs). Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. IOs receive cash flow from the interest payment component on underlying mortgage loans. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as U.S. government indirect-backed in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 8 for the Year End Portfolio.)

RFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The RFBP variable-rate securities float with LIBOR (London Interbank Offered Rate) or the weighted average of the net mortgage interest rates for the mortgage loan group. The variable-rate securities, with a total amortized cost of $87,000,003 for seven securities and $52,000,003 for six securities, respectively, as of June 30, 2006 and 2005, are identified and reported as corporate or U.S. government indirect-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 8 for the Year End Portfolio.)

The RFBP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Investments are presented in the Statement of Net Asset Value at fair value. Fair values are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Participant Units

The Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all fixed income and variable-rate securities, at amortized cost, into the RFBP at the start-up date and were issued units according to the market value of each participant's portfolio. The initial unit value as of April 1, 1995, was $100.00. Unit values thereafter are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the investment staff.

The June 30, 2006 unit value of $99.81 decreased from a June 30, 2005 unit value of $105.31. The yield on longer term bonds increased during the fiscal year, which has the effect of decreasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a three to five percent (3%-5%) inverse change in the unit

value. RFBP investments are considered long-term in nature.

The Value of Units Purchased by Participants of $113.2 million for fiscal year 2006, as compared to $219 million purchased for fiscal year 2005, reflects the pension funds' portfolio rebalancing. RFBP units were purchased to adjust the pension funds' portfolio towards the stated equity/fixed income asset allocation.

Broker Receivable/Payable

RFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the RFBP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Accumulated income, recorded as Income Due Participants, is distributed monthly on the first calendar day of each month. Realized portfolio gains/losses are distributed at least annually to the participants.

Interest income reported in the Statement of Investment Income and Distribution includes interest accruals and miscellaneous income.

Administrative expenses incurred by the Board are charged daily to RFBP based on the Board's expenses applicable to RFBP. These expenses include costs for the custodial bank contract.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 102 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2006, the carrying and fair values of the underlying securities on loan for the RFBP were $82,091,292 and $81,700,961 respectively. The collateral provided for the securities on loan totaled $84,096,961 in cash and $381,000 in securities collateral. The carrying value of the underlying securities on loan is categorized as $15,809,696 corporate, $109,264 foreign government bonds, and $66,172,332 U.S. government indirect-backed bonds.

As of June 30, 2005, the carrying and fair values of the underlying securities on loan for the RFBP were $199,141,164 and $208,000,643 respectively. Cash collateral provided for the securities on loan totaled $214,242,953. The carrying value of the underlying securities on loan is categorized as $29,436,384 corporate, $114,129 foreign government bonds, $102,991,211 U.S. government direct-backed bonds and $66,599,440 U.S. government indirect-backed bonds.

4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the

following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the RFBP fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires RFBP fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. According to the RFBP Investment Policy, "with the exception of U.S. government indirect-backed (agency) securities, additional RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 5.50% as of June 30, 2006 and 6.21% as of June 30, 2005.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The RFBP investment policy does not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government indirect-backed category, the RFBP portfolio holds REMICs totaling $387,052 and $554,309 in amortized cost, respectively, as of June 30, 2006 and June 30, 2005. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 carry an amortized cost of $3 as of June 30, 2006 and June 30, 2005.

The RFBP holds one inverse variable rate corporate $25 million par bond. The quarterly coupon is calculated at an increased set rate less the 12 month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2006 and June 30, 2005. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Credit Quality Rating and Effective Duration as of June 30, 2006

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	$	930,859,199	A	5.20
Corporate Bonds (Unrated)		13,928,888	NR	3.81
Foreign Government Bonds		4,850,000	BBB	5.83
U.S. Government Direct-Backed		55,508,068	AAA	6.87
U.S. Government Indirect-Backed		722,333,929	AAA	4.73
State Street Repurchase Agreement* (Rated)		447,861	AA-	NA
Short Term Investment Pool (STIP)		109,116,501	NR	NA
Total Fixed Income Investments	$	1,837,044,446	AA-	5.05
Securities Lending Collateral Investment Pool	$	84,096,961	NR	NA

* At June 30, 2006, the State Street Bank repurchase agreement was collateralized at $449,375 by a AAA rated Federal National Mortgage Association note maturing May 15, 2008.

Credit Quality Rating and Effective Duration as of June 30, 2005

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	$	894,556,479	A-	5.75
Corporate Bonds (Unrated)		19,537,653	NR	4.07
Foreign Government Bonds		5,217,500	BBB	6.67
U.S. Government Direct-Backed		188,790,314	AAA	4.50
U.S. Government Indirect-Backed		605,800,830	AAA	3.91
State Street Repurchase Agreement* (Rated)		9,923,600	AA-	NA
Short Term Investment Pool (STIP)		112,477,995	NR	NA
Total Fixed Income Investments	$	1,836,304,371	AA-	4.95
Securities Lending Collateral Investment Pool	$	214,242,953	NR	NA

* At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $10,169,671 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

Specific Legal and Credit Risk

As of June 30, 2006 and June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the Board. The RFBP held a $5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. This bond, with a June 30, 2006 and 2005 book value of $5,745,000 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005 the RFBP held a $9,930,036 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020 and a $7,802,614 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp. insured bond maturing April 1, 2019. The combined book value of these two securities was $17,244,339 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the Board stopped the interest income accruals for the 6.81% bond maturing February 1, 2020 after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of $642,183. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bond maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the Board did not stop the interest income accrual or reduce book value. On January 11, 2006 Northwest Airlines Inc. called the 7.935% bond maturing April 1, 2019 at par and included accrued interest from October 1, 2005 to January 11, 2006. The Board recorded a gain of $132,710 on this transaction.

As of June 30, 2006 and June 30, 2005, Burlington Industries, Inc. presented a legal and higher credit risk to the Board. The Board owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5,609,640 to $2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the Board received $1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $254,961. In February 2005 and May 2005, the Board received an additional $208,771 and $194,247, respectively, for its unsecured claim. In May 2006, the Board received an additional payment of $158,278. The Board is expected to receive the final distribution in September 2006.

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the Board. The RFBP holds a $3 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013, a $1.971 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2011 and a $6 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the Board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the Board received the interest due in June 2005 and August 2005. The combined book value of these securities was $10,949,050 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to $1.5 million, $985,500 and $3 million, respectively. On March 20, 2006, the Board sold these securities and recorded a combined gain of $892,680.

5. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $5,683,075 in principal and interest plus $150,000 as a consent fee.

On December 11, 2003, the Supreme Court of the State of New York, New York County, entered an order dismissing Deutsche Bank's complaint on jurisdictional grounds. Deutsche Bank appealed that decision to the Appellate Division, which on June 14, 2005 reversed the Supreme Court and entered an order determining the Board to be liable and remanding the matter back to the Supreme Court for a determination of damages. The Board appealed that decision to the New York Court of Appeals, which on June 6, 2006 affirmed the Appellate Divison's decision. The Board has since petitioned for certiorari to the United States Supreme Court on certain jurisdictional issues. At the same time, discovery is proceeding in the New York Supreme Court to determine damages.

6. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Implementation of electronic trading for the Short Term Investment Pool and the other fixed income portfolios, as managed by Board Staff, was completed in fiscal year 2006.

7. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities

transactions on the State Street accounting system using the INSIGHT download function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

8. YEAR END PORTFOLIO

The June 30, 2006 RFBP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
STATE STREET REPURCHASE AGREEMENT	4.500	07/03/06	447,861	447,861	447,861	0.02%
SHORT TERM INVESTMENT POOL			109,116,501	109,116,501	109,116,501	5.94%
Cash Equivalents	**2 Issue(s)**		**109,564,362**	**109,564,362**	**109,564,362**	**5.96%**
AA / FT WORTH HQ FINANCE TRUST	5.500	10/05/10	6,587,293	6,587,293	6,412,993	0.35%
AOL TIME WARNER INC	6.750	04/15/11	10,000,000	10,444,987	10,252,070	0.56%
AERO 1 HQ FINANCE TRUST	4.640	07/07/10	5,745,000	5,745,000	5,314,355	0.29%
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.930	01/02/19	4,380,546	4,380,546	4,621,476	0.25%
AMERICAN EXPRESS CO	4.750	06/17/09	3,000,000	2,997,031	2,933,112	0.16%
AMERICAN GEN FINANCE CORP	4.625	05/15/09	6,000,000	6,016,501	5,825,130	0.32%
ARIA CDO	VAR	10/10/12	25,000,000	25,000,000	24,874,750	1.35%
ATCHISON TOPEKA + SANTA FE RY	6.550	01/06/13	5,130,921	5,130,921	5,197,602	0.28%
B J SERVICES	5.750	06/01/11	7,000,000	6,990,946	6,935,089	0.38%
BANK ONE TEXAS NA	6.250	02/15/08	4,000,000	3,946,856	4,040,237	0.22%
BANKBOSTON NA	6.375	03/25/08	4,000,000	3,947,974	4,050,791	0.22%
BAYERISCHE LANDESBANK	VAR	09/27/11	25,000,000	25,000,000	19,000,000	1.03%
BELLSOUTH CORP	4.750	11/15/12	2,000,000	1,996,110	1,854,422	0.10%
BELLSOUTH TELECOMM INC	6.300	12/15/15	12,529,000	13,539,185	12,507,600	0.68%
BISHOPSGATE CDO	5.180	06/30/10	25,000,000	25,000,000	23,652,500	1.29%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	5,000,000	5,000,916	5,025,391	0.27%
BURLINGTON NORTHN RR CO	7.970	01/01/15	3,214,857	3,214,857	3,476,772	0.19%
BURLINGTON NORTHN RR CO	6.940	01/02/14	2,962,735	2,962,735	3,122,528	0.17%
CIT GROUP INC	4.750	12/15/10	7,000,000	7,200,833	6,715,604	0.37%
CSX CORP	7.450	05/01/07	3,000,000	3,017,564	3,044,579	0.17%
CSX CORP	7.900	05/01/17	4,588,000	4,586,558	5,262,643	0.29%
CANADIAN NATIONAL RAILWAY CO	6.800	07/15/18	6,000,000	5,971,520	6,472,484	0.35%
CANADIAN PACIFIC LTD	9.450	08/01/21	5,000,000	5,124,171	6,625,465	0.36%
CAPITAL ONE BANK	5.000	06/15/09	6,000,000	5,993,297	5,876,970	0.32%
CENTEX CORP	4.550	11/01/10	9,000,000	8,989,845	8,434,305	0.46%
CHAMPION INTERNATIONAL CORP	7.150	12/15/27	7,000,000	6,880,410	6,803,226	0.37%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	7,448,965	7,448,965	8,315,094	0.45%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,905,744	5,070,894	0.28%
CITICORP CAPITAL II	8.015	02/15/27	4,000,000	3,973,015	4,155,037	0.23%
COMCAST CORP	5.450	11/15/10	6,000,000	6,005,812	5,903,844	0.32%
COMMMERCIAL MORTGAGE TRUST	5.540	06/10/46	8,000,000	8,019,453	7,972,349	0.43%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.545	08/02/20	6,423,079	6,423,079	6,361,203	0.35%
CORPORATE PROPERTY REIT	7.875	03/15/16	12,000,000	12,043,147	13,386,289	0.73%
CREDIT SUISSE FIRST BOSTON USA	6.500	01/15/12	10,000,000	10,591,962	10,318,490	0.56%
CYPRESSTREE SYNTHETIC CDO	VAR	12/30/10	25,000,000	25,000,000	23,945,000	1.30%
DOT HEADQUARTERS II LEASE MORTGAGE	0.000	12/07/21	30,000,000	28,434,442	30,142,500	1.64%
DEER PARK REFINING L P	6.470	12/15/08	3,138,000	3,122,824	3,159,031	0.17%
DONNELLEY R R + SONS CO	4.950	04/01/14	5,000,000	4,673,424	4,501,655	0.25%
DONNELLEY R R + SONS CO	4.950	05/15/10	5,000,000	4,989,694	4,802,495	0.26%
DUN + BRADSTREET CORP	5.500	03/15/11	10,000,000	9,998,587	9,833,160	0.54%
EASTERN ENERGY LTD	7.250	12/01/16	5,000,000	4,953,158	5,663,809	0.31%
EL PASO NATURAL GAS CO	8.625	01/15/22	5,000,000	5,180,819	5,487,500	0.30%
ENTERGY ARKANSAS INC	4.500	06/01/10	7,000,000	6,975,723	6,670,326	0.36%
FPL ENERGY NATIONAL WIND LLC	5.608	03/10/24	2,851,140	2,851,140	2,729,681	0.15%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,900,360	4,073,700	0.22%
FIRST UNION BANK N C	5.800	12/01/08	6,000,000	5,837,443	6,031,307	0.33%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	9,500,000	9,453,606	10,500,540	0.57%
FORD MOTOR CREDIT CO	7.375	10/28/09	8,000,000	8,004,345	7,368,602	0.40%
FORD MOTOR CREDIT CO	5.700	01/15/10	7,000,000	6,951,823	6,124,399	0.33%
FORTUNE BRANDS INC	5.375	01/15/16	10,000,000	9,939,970	9,250,260	0.50%
GTE CORP	7.900	02/01/27	14,000,000	14,000,000	14,222,694	0.77%
GALENA CDO I	VAR	01/11/13	12,000,000	12,000,000	11,991,600	0.65%
GENERAL AMERICAN TRANSN CORP EQUIPMENT	8.420	01/01/15	7,089,672	7,089,672	7,667,311	0.42%
GENERAL ELECTRIC CAPITAL CORP	8.125	05/15/12	5,000,000	5,168,221	5,604,121	0.31%
GENERAL ELECTRIC CAPITAL CORP	5.000	01/08/16	3,000,000	2,981,367	2,815,956	0.15%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,004,497	4,937,906	0.27%
GENERAL MOTORS ACCEPTANCE CORP	5.625	05/15/09	6,000,000	6,082,604	5,685,107	0.31%
GENWORTH GLOBAL FUNDING TRUSTS	5.125	03/15/11	5,000,000	4,986,723	4,880,595	0.27%
GEORGIA POWER CO	5.250	12/15/15	3,000,000	3,000,170	2,862,549	0.16%
HSBC FINANCE CORP	5.500	01/19/16	10,000,000	9,956,963	9,523,680	0.52%
HOUSEHOLD FINANCE CORP	6.500	11/15/08	5,000,000	4,925,905	5,090,156	0.28%
IBP FINANCIAL CO CANADA	7.450	06/01/07	3,000,000	2,999,810	3,032,631	0.17%
ING SECURITY LIFE INSTITUTIONAL FUNDING	4.250	01/15/10	7,000,000	6,989,154	6,710,382	0.37%
INTERNATIONAL LEASE FINANCE CORP	4.550	10/15/09	2,000,000	2,005,180	1,927,048	0.10%
INTERNATIONAL PAPER CO	6.875	11/01/23	3,000,000	2,969,068	2,952,632	0.16%
INTERNATIONAL PAPER CO	4.000	04/01/10	4,000,000	4,000,944	3,742,464	0.20%
J P MORGAN CAPITAL TRUST	7.540	01/15/27	6,000,000	5,717,349	6,259,769	0.34%
J P MORGAN CHASE COMMERCIAL TRUST	4.555	06/12/41	12,000,000	11,999,887	11,665,100	0.63%
J P MORGAN CHASE COMMERCIAL TRUST	3.053	01/15/38	2,291,397	2,294,380	2,177,415	0.12%
KCT INTERMODAL TRANSPORTATION CORP	6.884	08/01/18	3,317,333	3,317,333	3,430,195	0.19%
KELLWOOD CO	7.625	10/15/17	12,000,000	11,850,046	10,813,104	0.59%
KERR MCGEE CORP	7.125	10/15/27	7,000,000	7,078,208	7,035,000	0.38%
KERR MCGEE CORP	6.950	07/01/24	4,000,000	3,971,990	4,020,776	0.22%
KEY BANK NA	4.412	03/18/08	5,000,000	5,000,000	4,906,025	0.27%
KEYBANK NA	5.450	03/03/16	10,000,000	9,997,679	9,560,310	0.52%
KRAFT FOODS INC	4.125	11/12/09	2,000,000	1,993,439	1,900,970	0.10%
LEHMAN BROTHERS HOLDINGS INC	3.950	11/10/09	7,000,000	6,990,620	6,616,134	0.36%
MGIC INVT CORP	5.375	11/01/15	10,000,000	9,864,559	9,372,170	0.51%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	10,000,000	9,849,093	10,228,664	0.56%
MARSH + MCLENNAN COS INC	7.125	06/15/09	7,000,000	6,997,635	7,214,101	0.39%
MEAD CORP	7.350	03/01/17	11,000,000	10,993,449	11,945,165	0.65%
MED MAP L L C MONTANA	7.060	12/01/15	8,595,000	8,595,000	8,681,810	0.47%
MED MAP L L C MONTANA	7.000	06/01/21	5,730,000	5,730,000	5,766,099	0.31%
METLIFE INC	5.000	11/24/13	5,000,000	4,964,446	4,703,825	0.26%
METROPOLITAN LIFE GOLBAL	4.250	07/30/09	3,000,000	2,999,078	2,892,975	0.16%
MOBIL CORP	5.940	01/15/19	8,012,149	8,012,149	8,104,925	0.44%
MORGAN J P + CO INC	0.000	04/15/27	30,000,000	6,235,834	6,015,936	0.33%
NATIONWIDE FINANCIAL SERVICES INC	8.000	03/01/27	6,000,000	5,922,260	6,205,693	0.34%
NORFOLK SOUTHERN CORP	7.700	05/15/17	6,000,000	6,022,565	6,774,690	0.37%
OCCIDENTAL PETROLEUM CORP	7.200	04/01/28	10,000,000	9,873,109	11,152,164	0.61%
OCCIDENTAL PETROLEUM CORP	8.750	01/15/23	6,000,000	5,959,984	7,582,297	0.41%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	4,000,000	3,999,793	4,051,836	0.22%
PNC FUNDING CORP	4.200	03/10/08	10,000,000	9,997,350	9,752,160	0.53%
PPL MONTANA LLC	8.903	07/02/20	19,575,518	19,647,141	21,856,240	1.19%
PACIFIC BELL	7.250	11/01/27	6,000,000	5,964,006	5,920,604	0.32%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	6,000,000	5,982,274	6,480,000	0.35%
PHILLIPS PETROLEUM CO	7.125	03/15/28	11,000,000	10,862,576	11,039,174	0.60%
PRUDENTIAL FINANCIAL INC	5.500	03/15/16	10,000,000	9,800,948	9,612,660	0.52%
PUGET SOUND POWER + LIGHT CO	5.197	10/01/15	6,000,000	5,908,879	5,605,440	0.31%
SLM CORP	5.375	01/15/13	10,000,000	9,988,866	9,662,510	0.53%
ST PAUL TRAVELERS COS INC	5.500	12/01/15	2,000,000	1,916,093	1,889,062	0.10%
SEARIVER MARITIME FINANCIAL HOLDINGS	0.000	09/01/12	30,000,000	22,699,069	21,069,912	1.15%
SECURITY CAP GROUP INC	7.700	06/15/28	3,000,000	3,482,967	3,524,067	0.19%
SOUTHERN UNION CO	7.600	02/01/24	7,000,000	7,032,113	7,143,830	0.39%
SOUTHWEST GAS CORP	7.500	08/01/06	6,000,000	6,002,427	6,009,743	0.33%
SOUTHWEST GAS CORP	8.375	02/15/11	6,000,000	5,990,153	6,536,144	0.36%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	3,000,000	2,997,051	2,902,762	0.16%
TTX CO	6.050	06/15/16	7,500,000	7,485,342	7,394,175	0.40%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	3,000,000	2,789,483	3,281,184	0.18%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	3,000,000	3,002,675	3,033,750	0.17%
TRISTATE GENERATION/TRANSPORT ASSOC	6.040	01/31/18	8,000,000	8,066,549	7,847,099	0.43%
TYSON FOODS INC	8.250	10/01/11	3,000,000	3,272,561	3,181,748	0.17%
US BANK NA MINNEAPOLIS	6.500	02/01/08	5,000,000	4,999,770	5,075,937	0.28%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	3,000,000	2,984,348	3,083,849	0.17%
UNION PACIFIC RESOURCES GROUP INC	7.050	05/15/18	12,000,000	11,942,091	12,349,962	0.67%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	5,229,164	0.28%
VERIZON COMMUNICATIONS INC	5.550	02/15/16	5,000,000	4,961,441	4,688,195	0.26%
VIRGINIA ELECTRIC + POWER CO	5.400	01/15/16	10,000,000	9,938,381	9,417,760	0.51%
WACHOVIA BANK NA	5.600	03/15/16	10,000,000	9,986,626	9,695,970	0.53%
WAL MART STORES INC PASS THRU TRUST	7.490	06/21/07	899,872	898,523	908,490	0.05%
WASHINGTON MUTUAL INC	4.200	01/15/10	9,000,000	8,990,379	8,560,692	0.47%
WESTERN PROPERTIES TRUST	7.200	09/15/08	3,000,000	2,960,816	3,083,624	0.17%
WESTVACO CORP	7.650	03/15/27	9,000,000	8,968,068	9,492,964	0.52%
WEYERHAEUSER CO	8.500	01/15/25	7,000,000	7,260,808	8,002,905	0.44%
WEYERHAEUSER CO	6.750	03/15/12	7,000,000	7,353,473	7,151,627	0.39%
WILLAMETTE INDUSTRIES INC	7.000	02/01/18	4,000,000	3,981,269	3,997,063	0.22%
XANTERRA SOUTH RIM LLC	5.690	12/15/11	10,000,000	10,000,000	9,680,800	0.53%
ZIONS BANCORPORATION	5.650	05/15/14	4,000,000	3,943,367	3,874,696	0.21%
Corporate (Rated)	**128 Issue(s)**		**964,510,477**	**932,792,638**	**930,859,199**	**50.67%**
WILMINGTON TRUST TUCSON ELECTRIC	10.211	01/01/09	4,752,202	4,752,202	4,865,400	0.26%
AMERICAN PRESIDENT COS LTD	8.000	01/15/24	5,000,000	4,765,001	4,500,000	0.24%
FIRST INTERSTATE BANC SYS MONTANA	7.500	10/01/06	3,220,000	3,220,000	3,220,000	0.18%
MERIDIAN TRAILER TRAIN EQUIPMENT TRUST	9.850	01/29/10	861,875	861,875	898,936	0.05%
MERIDIAN TRAILER TRAIN EQUIPMENT TRUST	9.850	01/29/08	436,692	436,692	444,552	0.02%
Corporate (Unrated)	**5 Issue(s)**		**14,270,770**	**14,035,771**	**13,928,888**	**0.76%**
UNITED MEXICAN STATES	5.875	01/15/14	5,000,000	4,966,538	4,850,000	0.26%
Foreign Government Bonds	**1 Issue(s)**		**5,000,000**	**4,966,538**	**4,850,000**	**0.26%**
ASTRO OFFSHORE CORP USGG XI	6.000	12/20/19	10,883,000	10,883,000	10,638,133	0.58%
ENSCO OFFSHORE CO USGG XI	6.360	12/01/15	6,333,526	6,333,526	6,507,002	0.35%
GNMA II POOL 001254	9.500	09/20/19	23,829	23,745	26,218	0.00%
GNMA POOL 046249	10.000	12/15/10	4,017	4,005	4,269	0.00%
GNMA POOL 135544	10.000	01/15/16	63,818	63,589	70,184	0.00%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	7,600,000	7,600,000	7,473,840	0.41%
TUNISIA AID USGG XI	6.710	02/01/24	3,794,257	3,629,361	3,794,257	0.21%
USGG SHIPPING + CENAC TOWING USGG XI	7.000	05/15/21	7,564,000	7,564,000	7,564,000	0.41%
VESSEL MANAGEMENT SERV INC USGG XI	6.080	05/20/24	10,800,000	10,800,000	11,051,640	0.60%
VESSEL MANAGEMENT SERV INC USGG XI	6.750	06/15/25	7,800,000	7,800,000	8,378,526	0.46%
U.S. Government Direct-Backed	**10 Issue(s)**		**54,866,448**	**54,701,226**	**55,508,068**	**3.02%**
FEDERAL HOME LOAN POOL B13150	4.000	03/01/19	22,000,086	22,000,086	20,316,593	1.11%
FEDERAL HOME LOAN POOL C01523	5.000	03/01/33	9,567,690	9,493,114	8,985,406	0.49%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	497,736	497,135	494,037	0.03%
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	491,577	491,305	492,787	0.03%
FEDERAL HOME LOAN POOL E01376	4.000	04/01/18	20,508,447	20,376,762	19,004,762	1.03%
FEDERAL HOME LOAN POOL E01418	4.000	07/01/18	20,466,689	20,032,430	18,896,058	1.03%
FEDERAL HOME LOAN POOL E01425	4.500	08/01/18	20,618,550	20,571,411	19,505,009	1.06%
FEDERAL HOME LOAN POOL E99081	4.500	09/01/18	18,897,264	18,797,631	17,873,869	0.97%
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	421,633	421,280	422,473	0.02%
FEDERAL HOME LOAN POOL G11670	4.000	03/01/15	27,483,855	27,087,620	25,677,265	1.40%
FEDERAL HOME LOAN POOL G11777	5.000	10/01/20	27,514,971	27,280,844	26,491,013	1.44%
FEDERAL HOME LOAN POOL G11812	5.000	12/01/20	33,196,585	32,736,673	31,961,188	1.74%
FEDERAL HOME LOAN POOL G30006	7.000	07/01/13	296,105	297,467	301,651	0.02%
FEDERAL HOME LOAN POOL G02070	5.500	03/01/36	29,501,080	28,851,322	28,353,960	1.54%
FEDERAL HOME LOAN MORTGAGE CORP	5.000	06/18/18	15,000,000	15,000,000	14,115,870	0.77%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	06/12/13	13,000,000	12,125,447	11,838,476	0.64%
FEDERAL HOME LOAN MORTGAGE CORP	4.000	07/18/18	15,000,000	15,000,000	14,178,518	0.77%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
FEDERAL HOME LOAN MORTGAGE CORP	4.500	04/02/14	11,000,000	10,965,880	10,209,914	0.56%
FEDERAL HOME LOAN MORTGAGE CORP	5.000	01/30/14	13,000,000	12,996,744	12,518,870	0.68%
FEDERAL HOME LOAN MORTGAGE CORP	4.825	09/23/15	15,000,000	14,060,957	14,063,355	0.77%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/21/32	100,000,000	16,745,271	16,620,000	0.90%
FEDERAL HOME LOAN MORTGAGE CORP	8.250	06/01/26	8,000,000	8,262,687	9,940,632	0.54%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/05/28	150,000,000	33,691,406	32,912,550	1.79%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	09/14/29	100,000,000	20,543,787	20,224,500	1.10%
FEDERAL AGRICULTURAL MORTGAGE CORP	6.710	07/28/14	17,000,000	18,808,097	18,311,907	1.00%
FEDERAL FARM CREDIT BANKS	5.450	04/21/20	12,000,000	11,716,026	11,292,480	0.61%
FEDERAL FARM CREDIT BANKS	5.200	12/27/12	5,000,000	5,000,000	4,892,450	0.27%
FEDERAL HOME LOAN BANKS	4.250	07/17/13	13,000,000	12,245,851	12,006,904	0.65%
FEDERAL HOME LOAN BANKS	6.395	06/03/14	4,000,000	3,796,771	4,209,926	0.23%
FEDERAL HOME LOAN BANKS	7.000	08/26/19	8,000,000	7,978,200	8,963,160	0.49%
FEDERAL HOME LOAN BANKS	7.450	02/03/20	15,000,000	15,083,385	17,655,195	0.96%
FEDERAL HOME LOAN BANKS	3.750	02/07/28	5,000,000	4,998,527	4,940,320	0.27%
FEDERAL HOME LOAN BANKS	4.125	08/13/10	25,000,000	25,213,965	23,773,575	1.29%
FEDERAL HOME LOAN BANKS	5.000	08/28/19	15,000,000	15,000,000	14,680,500	0.80%
FEDERAL HOME LOAN BANKS	5.410	05/26/10	15,000,000	15,000,000	14,758,725	0.80%
FEDERAL HOME LOAN MORTGAGE PC REMIC	9.300	11/15/20	95,975	93,813	95,461	0.01%
FEDERAL HOME LOAN MORTGAGE PC REMIC	VAR	08/15/07	298,816	1	1,437	0.00%
FEDERAL HOME LOAN MORTGAGE PC REMIC	VAR	09/15/07	199,115	1	1,125	0.00%
FEDERAL NATL MTG ASSN REMIC IO	VAR	08/25/07	292,059	1	5,575	0.00%
FEDERAL NATL MTG ASSN REMIC	9.500	03/25/20	296,464	293,239	317,047	0.02%
FEDERAL NATIONAL MORTGAGE ASSN	6.000	05/15/08	30,000,000	29,755,515	30,282,939	1.65%
FEDERAL NATIONAL MORTGAGE ASSN	7.250	01/15/10	17,000,000	16,997,909	17,959,145	0.98%
FEDERAL NATIONAL MORTGAGE ASSN	6.625	11/15/10	5,000,000	5,095,104	5,219,072	0.28%
FEDERAL NATIONAL MORTGAGE ASSN	4.500	08/15/08	10,000,000	10,000,000	9,808,810	0.53%
FNMA POOL 256083	6.000	01/01/26	23,661,358	23,573,185	23,505,927	1.28%
FNMA POOL 303365	6.500	05/01/09	689,979	685,946	699,736	0.04%
FNMA POOL 303125	7.500	01/01/10	247,304	246,922	250,271	0.01%
FNMA POOL 303202	6.500	05/01/14	595,873	592,064	602,191	0.03%
FNMA POOL 303590	7.000	11/01/10	322,708	322,708	327,191	0.02%
FNMA POOL 313999	6.000	02/01/13	652,778	650,629	655,404	0.04%
FNMA POOL 572220	6.000	03/01/16	716,958	715,437	720,403	0.04%
FNMA POOL 592327	5.500	06/01/16	1,329,323	1,306,166	1,307,670	0.07%
FNMA POOL 725346	4.000	03/01/19	22,692,416	22,482,014	20,976,177	1.14%
FNMA POOL 745250	5.000	01/01/21	28,684,645	28,562,268	27,634,772	1.50%
FNMA POOL 780956	4.500	05/01/19	22,732,325	22,726,116	21,514,178	1.17%
FREDDIE MAC	4.100	01/28/14	35,000,000	35,000,000	33,381,005	1.82%
U S ARMY HOSPITALITY FUND	7.467	05/01/32	14,370,889	14,370,889	16,184,495	0.88%
U.S. Government Indirect-Backed	**49 Issue(s)**		**1,020,341,254**	**736,638,007**	**722,333,929**	**39.32%**
Total RFBP	**203 Issue(s)**		**2,168,553,312**	**1,852,698,544**	**1,837,044,446**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Trust Funds Bond Pool, as of June 30, 2006, and 2005, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Trust Funds Bond Pool, as of June 30, 2006, and 2005, and its changes in net asset value and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
TRUST FUNDS BOND POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2006 AND 2005

		2006		2005
Assets				
Cash	$	0	$	0
Security lending cash collateral (Notes 3 and 4)		61,814,106		159,415,025
Interest receivable		16,269,788		16,775,208
Investments managed at fair value (amortized cost of $1,323,175,351 in 2006 and $1,270,289,093 in 2005) (Notes 2, 4 and 9)		1,314,596,488		1,331,695,138
Total assets	$	1,392,680,382	$	1,507,885,371
Liabilities				
Income due participants (Note 2)	$	8,358,662	$	8,228,520
Broker payable for securities purchased but not settled (Note 2)		0		9,000,000
Security lending obligations (Notes 3 and 4)		61,814,106		159,415,025
Security lending expense payable		254,820		401,325
Total liabilities		70,427,588		177,044,870
Net asset value	$	1,322,252,794	$	1,330,840,501
Units Outstanding (Note 2)		13,757,064		13,130,701
Unit Value (Note 2)	$	96.11	$	101.35

STATEMENT OF CHANGES IN NET ASSET VALUE FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net asset value, beginning of year	$	1,330,840,501	$	1,262,690,838
Value of units purchased by participants		96,950,097		68,871,431
Value of units sold by participants		(34,220,847)		(17,143,652)
Changes in fair value of investments managed		(71,316,957)		16,421,884
Net asset value, end of year	$	1,322,252,794	$	1,330,840,501

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Interest income (Note 2)	$	68,387,650	$	67,804,006
Amortization/accretion		6,670,909		5,102,743
Net realized gains (Note 2)		692,463		12,452,243
Security lending income		4,417,859		3,217,273
Security lending expense		(4,338,195)		(3,040,824)
Administrative expenses		(316,821)		(218,667)
Income due participants, beginning of year		8,228,520		8,651,899
Income available for distribution		83,742,385		93,968,673
Distribution		75,383,723		85,740,153
Income due participants, end of year (Note 2)	$	8,358,662	$	8,228,520

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Trust Funds Bond Pool (TFBP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, to participate in a diversified pool. The TFBP was created on October 1, 1995, by the transfer of all fixed income and variable-rate securities owned by six state trust funds. Since the pool's creation in 1995, the funds listed below became participants in the TFBP:

University of Montana Endowment Fund*	January 1996
Montana Pole Superfund	September 1996
Upper Clark Fork River Basin (UCFRB) Restoration	July 1999
Upper Clark Fork River Basin (UCFRB) Cost Recovery	July 1999
Streamside Tailings Operable Unit	July 1999
Treasure State Regional Water Systems	July 2000
Tobacco Trust Fund	January 2001
University of Montana Designated Fund*	July 2002
University of Montana Other Fund*	July 2002
Montana Tech of the U of M	March 2003
Real Property Trust	September 2003
Wildlife Habitat	September 2003
Acquisition Trust	April 2004
Bair Trust Fund	April 2004
Bradley Trust	April 2004
Merritt Wheeler Trust	April 2004
Sobotka Memorial Trust	April 2004
Teakle Trust	April 2004
Montana State University	July 2004
Big Sky Economic Development Fund	July 2005
Stewart Trust	January 2006

* In July 2005, the University of Montana requested the University of Montana Endowment Fund and the University of Montana Designated Fund be closed and transferred, at cost, into the University of Montana Other Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

The TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The TFBP portfolio includes securities classified as corporate, foreign government bonds, municipals, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as U.S. government indirect-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 9 for the Year End Portfolio)

TFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The TFBP variable-rate securities float with LIBOR (London Interbank Offered Rate). As of June 30, 2006, three variable-rate securities, with a total amortized cost of $39,000,000, are identified and reported as corporate securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Disclosures and Note 9 for the Year End Portfolio.) As of June 30, 2005, three variable-rate securities, with a total amortized cost of $29,000,000, are identified and reported as corporate or U.S. government indirect-backed securities in the investment risk and portfolio disclosures.

Investments are presented in the Statement of Net Asset Value at fair value. Fair values for securities are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

The TFBP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Participant Units

The Coal Severance Tax Permanent Trust, Resource Indemnity Trust, Coal Tax Park Trust, Trust and Legacy, Coal Tax Cultural Trust, and Treasure State Endowment Trust funds transferred all fixed income and variable-rate securities, at amortized cost, into the TFBP at the start-up date and were issued units according to the fair value of each participant's portfolio. The initial unit value as of October 1, 1995, was $100.00. Unit values are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the investment staff.

The June 30, 2006 unit value of $96.11 decreased from a June 30, 2005 unit value of $101.35. The yield on longer term bonds increased during the fiscal year, which has the effect of decreasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a three to five percent (3%-5%) inverse change in the unit value. TFBP investments are considered long-term in nature and participants require long-term time horizons.

Broker Receivable/Payable

TFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the TFBP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Accumulated income, recorded as Income Due Participants, is distributed monthly on the first calendar day of each month. Realized portfolio gains/losses are distributed at least annually to the participants.

Interest income reported in the Statement of Investment Income and Distribution includes interest accruals and miscellaneous income.

Administrative expenses incurred by the Board are charged daily to TFBP based on the Board's expenses applicable to TFBP. These expenses include costs for the custodial bank contract.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 102 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults. The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal

years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2006, the carrying and fair value of the underlying securities on loan for the TFBP was $69,156,566 and $68,572,311, respectively. The collateral provided for the securities on loan totaled $71,083,106 representing $61,814,106 in cash and $9,269,000 in securities collateral. The carrying value of the underlying securities on loan is categorized as $5,054,589 corporate, $312,892 foreign government bonds, and $63,789,085 U.S. government indirect-backed.

As of June 30, 2005, the carrying and fair value of the underlying securities on loan for the TFBP was $151,184,341 and $157,922,586, respectively. The collateral provided for the securities on loan totaled $162,631,521representing $159,415,025 in cash and $3,216,496 in securities collateral. The carrying value of the underlying securities on loan is categorized as $20,985,615 corporate, $2,628,923 foreign government bonds, $52,176,907 U.S. government direct-backed, and $75,392,895 U.S. government indirect-backed.

4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the TFBP fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires TFBP fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. According to the TFBP Investment Policy, "with the exception of U.S. government indirect-backed (agency) securities, additional TFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". The TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 7.75% as of June 30, 2006 and 8.19% as of June 30, 2005.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP investment policy does not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the

average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling $84,804 and $113,944, respectively, at amortized cost, as of June 30, 2006 and June 30, 2005. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

The TFBP holds one inverse variable rate corporate $15 million par bond. The quarterly coupon is calculated at a set rate less the 12 month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2006 and June 30, 2005. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

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Credit Quality Rating and Effective Duration as of June 30, 2006

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	$	643,216,700	A	4.93
Corporate Bonds (Unrated)		3,812,700	NR	1.48
Foreign Government Bonds		9,700,000	BBB	5.83
Municipal Government Bonds (Rated)		1,167,858	AA	2.70
Municipal Government Bonds (Unrated)		2,656,472	NR	3.94
U.S. Government Direct-Backed		58,629,125	AAA	7.37
U.S. Government Indirect-Backed		509,562,146	AAA	4.77
State Street Repurchase Agreement* (Rated)		268,717	AA-	N/A
Short Term Investment Pool (STIP)		85,582,770	NR	N/A
Total Investments	$	1,314,596,488	AA-	4.97
Securities Lending Collateral Investment Pool	$	61,814,106	NR	NA

*** At June 30, 2006, the State Street Bank repurchase agreement was collateralized at $269,625 by a AAA rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.**

Credit Quality Rating and Effective Duration as of June 30, 2005

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	$	665,536,568	A-	5.42
Corporate Bonds (Unrated)		5,956,312	NR	2.12
Foreign Government Bonds		10,435,000	BBB	6.67
Municipal Government Bonds (Rated)*		1,140,000	AA	3.50
Municipal Government Bonds (Unrated)*		4,983,270	NR	2.37
U.S. Government Direct-Backed		120,326,386	AAA	6.14
U.S. Government Indirect-Backed		455,262,802	AAA	3.86
State Street Repurchase Agreement** (Rated)		3,307,867	AA-	NA
Short Term Investment Pool (STIP)		64,746,933	NR	NA
Total Investments	$	1,331,695,138	AA-	4.91
Securities Lending Collateral Investment Pool	$	159,415,025	NR	NA

***The Municipal Government Bond investment type has been restated to report the separate rating and duration for the Rated and Unrated Municipal Government Bonds as of June 30, 2005. The Rated and Unrated Municipal Government Bonds were previously reported as $6,123,270 Unrated with a Credit Quality Rating of NR and an Effective Duration of 2.58.**

**** At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $3,389,890 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.**

Specific Legal and Credit Risk

As of June 30, 2006 and June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the Board. The TFBP held a $9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. This bond, with a June 30, 2006 and 2005 book value of $9,255,000, is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005, the TFBP held a $10,757,539 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020 and a $3,901,307 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp insured bond maturing April 1, 2019. The combined book value of these two securities was $14,356,399 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the Board stopped the interest income accruals for the 6.81% bond maturing February 1, 2020 after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of $809,221. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bond maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the Board did not stop the interest income accrual or reduce book value. On January 11, 2006 Northwest Airlines Inc. called the 7.935% bond maturing April 1, 2019 at par and included accrued interest from October 1, 2005 to January 11, 2006. The Board recorded a gain of $37,800 on this transaction.

As of June 30, 2006 and June 30, 2005, Burlington Industries, Inc. presented a legal and higher credit risk to the Board. The Board owns a Burlington Industries, Inc., $4 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $3,739,760 to $1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the Board received $969,974 in August 2004 for its unsecured claim. This transaction reduced the book value to $0 and generated a gain of $169,974. In February 2005 and May 2005, the Board received an additional $139,180 and $129,498, respectively, for its unsecured claim. In May 2006, the Board received an additional payment of $105,519. The Board is expected to receive the final distribution in September 2006.

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the Board. The TFBP holds a $2 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013 and a $3 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the Board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the Board received the interest due in June 2005 and August 2005. The combined book value of these securities was $4,994,602 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to $1 million and $1.5 million, respectively. On March 20, 2006, the Board sold these securities and recorded a combined gain of $410,000.

5. PARTICIPANT LOAN

In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of $46,366,904, to the Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund. In fiscal year 2006, the Trust and Legacy Fund paid $10,848,960 to the Coal Severance Tax Permanent Trust. These transactions reduced the TFBP shares on loan to 323,819 with a corresponding book value of $31,047,064. During fiscal year 2005, the Trust and Legacy Fund paid $2,650,063 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 436,973 with a corresponding book value of $41,896,024.

6. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $8 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $861,811 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $9,092,920 in principal and interest plus $240,000 as a consent fee.

On December 11, 2003, the Supreme Court of the State of New York, New York County, entered an order dismissing Deutsche Bank's complaint on jurisdictional grounds. Deutsche Bank appealed that decision to the Appellate Division, which on June 14, 2005 reversed the Supreme Court and entered an order determining the Board to be liable and remanding the matter back to the Supreme Court for a determination of damages. The Board appealed that decision to the New York Court of Appeals, which on June 6, 2006 affirmed the Appellate Division's decision. The Board has since petitioned for certiorari to the United States Supreme Court on certain jurisdictional issues. At the same time, discovery is proceeding in the New York Supreme Court to determine damages.

7. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Implementation of electronic trading for the Short Term Investment Pool and the other fixed income portfolios, as managed by Board Staff, was completed in fiscal year 2006.

8. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT download function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

9. YEAR END PORTFOLIO

The June 30, 2006 TFBP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
STATE STREET REPURCHASE AGREEMENT	4.50	07/03/06	268,717	268,717	268,717	0.02%
SHORT TERM INVESTMENT POOL	NA	NA	85,582,770	85,582,770	85,582,770	6.51%
Cash Equivalents	**2 Issue(s)**		**85,851,487**	**85,851,487**	**85,851,487**	**6.53%**
AA / FT WORTH HQ FINANCE TRUST	5.50	10/05/10	8,563,481	8,563,481	8,336,891	0.63%
AOL TIME WARNER INC	6.75	04/15/11	5,000,000	5,222,493	5,126,035	0.39%
AERO 1 HQ FINANCE TRUST	4.64	07/07/10	9,255,000	9,255,000	8,561,245	0.65%
AMERICA WEST AIRLINES EQUIPMENT TR	7.93	01/02/19	2,920,364	2,920,364	3,080,984	0.23%
AMERICAN EXPRESS CO	4.75	06/17/09	2,000,000	1,998,021	1,955,408	0.15%
AMERICAN GEN FINANCE CORP	4.63	05/15/09	4,000,000	4,011,001	3,883,420	0.30%
B J SERVICES	5.75	06/01/11	5,000,000	4,993,533	4,953,635	0.38%
BANK ONE TEXAS NA	6.25	02/15/08	4,000,000	3,946,856	4,040,237	0.31%
BANKBOSTON NA	6.38	03/25/08	4,000,000	3,947,974	4,050,791	0.31%
BAYERISCHE LANDESBANK	VAR	09/27/11	15,000,000	15,000,000	11,400,000	0.87%
BELLSOUTH CORP	4.75	11/15/12	3,000,000	2,994,166	2,781,633	0.21%
BELLSOUTH TELECOM INC	6.30	12/15/15	9,396,750	10,154,389	9,380,700	0.71%
BISHOPSGATE CDO LTD	5.18	06/30/10	10,000,000	10,000,000	9,461,000	0.72%
BORG WARNER AUTOMOTIVE INC	7.00	11/01/06	1,000,000	1,001,234	1,005,078	0.08%
BURLINGTON NORTHERN CO EQUIPMENT TR	7.97	01/01/15	3,214,857	3,214,857	3,476,772	0.26%
BURLINGTON NORTH SANTA FE EQUIP TR	7.16	01/02/20	12,443,950	12,443,950	13,177,232	1.00%
CIT GROUP EQUIPMENT TRUST	6.49	01/05/21	10,291,623	10,291,623	10,653,894	0.81%
CIT GROUP INC	4.75	12/15/10	3,000,000	3,086,071	2,878,116	0.22%
CNA FINANCIAL CORP	6.45	01/15/08	5,000,000	5,020,874	5,019,755	0.38%
CSX CORP	7.45	05/01/07	2,000,000	1,999,748	2,029,719	0.15%
CSX CORP	7.90	05/01/17	4,588,000	4,586,558	5,262,643	0.40%
CANADIAN NATIONAL RAILWAY CO	6.80	07/15/18	4,000,000	3,983,529	4,314,989	0.33%
CAPITAL ONE BANK	5.00	06/15/09	4,000,000	3,995,531	3,917,980	0.30%
CENTEX CORP	4.55	11/01/10	6,000,000	5,993,230	5,622,870	0.43%
CHAMPION INTERNATIONAL CORP	7.15	12/15/27	3,000,000	2,945,069	2,915,668	0.22%
CHICAGO + NORTH WESTERN RY	8.91	01/01/15	3,724,483	3,724,483	4,157,547	0.32%
CITIGROUP INC	6.20	03/15/09	5,000,000	4,905,744	5,070,894	0.39%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
CITICORP CAPITAL II	8.02	02/15/27	6,000,000	5,959,523	6,232,555	0.47%
CLEVELAND ELECTRIC ILLUM CO	7.13	07/01/07	5,000,000	4,997,334	5,064,555	0.39%
COMCAST CORP	5.45	11/15/10	4,000,000	4,003,875	3,935,896	0.30%
COMMERCIAL MORTGAGE TRUST	5.54	06/10/46	5,000,000	5,012,158	4,982,718	0.38%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.55	08/02/20	5,620,194	5,620,194	5,566,053	0.42%
CORPORATE PROPERTY REIT	7.88	03/15/16	3,000,000	2,994,927	3,346,572	0.25%
CREDIT SUISSE FIRST BOSTON USA	6.50	01/15/12	5,000,000	5,295,981	5,159,245	0.39%
CYPRESSTREE SYNTHETIC CDO LTD	VAR	12/30/10	15,000,000	15,000,000	14,367,000	1.09%
DOT HEADQUARTERS II LEASE MORTGAGE	0.00	12/07/21	20,000,000	18,956,295	20,095,000	1.53%
DEER PARK REFINING L P	6.47	12/15/08	1,569,000	1,558,882	1,579,516	0.12%
DONNELLEY R R + SONS CO	4.95	04/01/14	5,000,000	4,673,424	4,501,655	0.34%
DUN + BRADSTREET CORP	5.50	03/15/11	5,000,000	5,002,445	4,916,580	0.37%
EASTERN ENERGY LTD	7.25	12/01/16	10,000,000	9,906,316	11,327,617	0.86%
ENTERGY ARKANSAS INC	4.50	06/01/10	5,000,000	4,982,659	4,764,519	0.36%
FIRST CHICAGO CORP	6.38	01/30/09	4,000,000	3,900,360	4,073,700	0.31%
FIRST UNION BANK N C	5.80	12/01/08	4,000,000	3,891,629	4,020,872	0.31%
FLORIDA GAS TRANSMISSION CO	9.19	11/01/24	4,750,000	4,750,000	5,250,270	0.40%
FLORIDA GAS TRANSMISSION CO	7.00	07/17/12	3,000,000	2,997,371	3,118,541	0.24%
FORD MOTOR CREDIT CO	7.38	10/28/09	7,000,000	7,003,802	6,447,526	0.49%
FORD MOTOR CREDIT CO	5.70	01/15/10	3,000,000	2,979,353	2,624,743	0.20%
FORTUNE BRANDS INC	5.38	01/15/16	5,000,000	4,969,985	4,625,130	0.35%
GTE CORP	7.90	02/01/27	6,000,000	6,000,000	6,095,440	0.46%
GALENA CDO I	VAR	01/11/13	9,000,000	9,000,000	8,993,700	0.68%
GENERAL AMERICAN TRANS CORP EQUIP TR	8.42	01/01/15	7,089,672	7,089,672	7,667,311	0.58%
GENERAL ELECTRIC CAPITAL CORP	5.00	01/08/16	2,000,000	1,987,578	1,877,304	0.14%
GENERAL MOTORS ACCEPTANCE CORP	6.13	08/28/07	5,000,000	5,004,497	4,937,906	0.38%
GENERAL MOTORS ACCEPTANCE CORP	5.63	05/15/09	4,000,000	4,055,069	3,790,072	0.29%
GENWORTH GLOBAL FUNDING TRUSTS	5.13	03/15/11	5,000,000	4,986,723	4,880,595	0.37%
GEORGIA POWER CO	5.25	12/15/15	2,000,000	2,000,113	1,908,366	0.15%
HSBC FINANCE CORP	5.50	01/19/16	5,000,000	4,978,481	4,761,840	0.36%
HOUSEHOLD FINANCE CORP	6.50	11/15/08	5,000,000	4,926,693	5,090,156	0.39%
IBP FINANCIAL CO CANADA	7.45	06/01/07	3,000,000	2,999,810	3,032,631	0.23%
ING SECURITY LIFE INSTITUTIONAL FUNDING	4.25	01/15/10	5,000,000	4,992,253	4,793,130	0.36%
INTERNATIONAL LEASE FINANCE CORP	4.55	10/15/09	3,000,000	3,007,770	2,890,572	0.22%
INTERNATIONAL PAPER CO	6.88	11/01/23	2,000,000	1,979,379	1,968,421	0.15%
INTERNATIONAL PAPER CO	4.00	04/01/10	6,000,000	5,999,863	5,613,696	0.43%
J P MORGAN CAPITAL TRUST	7.54	01/15/27	4,000,000	3,811,566	4,173,179	0.32%
J P MORGAN CHASE COMMERCIAL TRUST	4.56	06/12/41	8,000,000	7,999,924	7,776,734	0.59%
J P MORGAN CHASE COMMERCIAL TRUST	3.05	01/15/38	6,874,191	6,883,139	6,532,244	0.50%
KCT INTERMODAL TRANSPORTATION CORP	6.88	08/01/18	1,658,667	1,658,667	1,715,098	0.13%
KELLWOOD CO	7.63	10/15/17	8,000,000	7,931,736	7,208,736	0.55%
KERR MCGEE CORP	7.13	10/15/27	3,000,000	3,033,518	3,015,000	0.23%
KERR MCGEE CORP	6.95	07/01/24	3,000,000	2,978,992	3,015,582	0.23%
KEYBANK NATIONAL ASSOCIATION	5.45	03/03/16	5,000,000	4,998,839	4,780,155	0.36%
LEHMAN BROTHERS HOLDINGS INC	3.95	11/10/09	5,000,000	4,993,300	4,725,810	0.36%
MGIC INVESTMENT CORP	5.38	11/01/15	5,000,000	4,932,280	4,686,085	0.36%
MACMILLAN BLOEDEL LTD	7.70	02/15/26	5,000,000	4,902,919	5,114,332	0.39%
MARSH + MCLENNAN COS INC	7.13	06/15/09	5,000,000	5,036,045	5,152,929	0.39%
MEAD CORP	7.35	03/01/17	4,000,000	3,997,618	4,343,696	0.33%
MED MAP L L C MONTANA	7.06	12/01/15	4,005,000	4,005,000	4,045,451	0.31%
MED MAP L L C MONTANA	7.00	06/01/21	4,405,000	4,405,000	4,432,752	0.34%
METLIFE INC	5.00	11/24/13	5,000,000	4,964,446	4,703,825	0.36%
METROPOLITAN LIFE GOLBAL	4.25	07/30/09	2,000,000	1,999,385	1,928,650	0.15%
MOBIL CORP	5.94	01/15/19	8,012,149	8,012,149	8,104,925	0.62%
MORGAN J P + CO INC	0.00	04/15/27	70,000,000	14,550,280	14,037,184	1.07%
NATIONWIDE FINANCIAL SERVICES INC	8.00	03/01/27	4,000,000	3,948,174	4,137,129	0.31%
NORFOLK SOUTHERN CORP	7.70	05/15/17	4,000,000	4,010,684	4,516,460	0.34%
OCCIDENTAL PETROLEUM CORP	7.20	04/01/28	5,000,000	4,891,389	5,576,082	0.42%
OCCIDENTAL PETROLEUM CORP	8.75	01/15/23	4,000,000	4,000,000	5,054,864	0.38%
OLD REPUBLIC INTERNATIONAL CORP	7.00	06/15/07	3,000,000	2,999,845	3,038,877	0.23%
PNC FUNDING CORP	4.20	03/10/08	5,000,000	4,998,675	4,876,080	0.37%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
PPL MONTANA LLC	8.90	07/02/20	19,575,518	19,647,141	21,856,240	1.66%
PACIFIC BELL	7.25	11/01/27	4,000,000	3,976,004	3,947,069	0.30%
PANAMERICAN BEVERAGES INC	7.25	07/01/09	7,000,000	6,991,620	7,560,000	0.58%
PHILLIPS PETROLEUM CO	7.13	03/15/28	4,000,000	3,950,027	4,014,245	0.31%
PRUDENTIAL FINANCIAL INC	5.50	03/15/16	5,000,000	4,900,474	4,806,330	0.37%
PUGET SOUND POWER + LIGHT CO	5.20	10/01/15	4,000,000	3,939,253	3,736,960	0.28%
SLM CORP	5.38	01/15/13	5,000,000	4,994,433	4,831,255	0.37%
ST PAUL TRAVELERS COS INC	5.50	12/01/15	2,000,000	1,916,093	1,889,062	0.14%
SEARIVER MARITIME FINANCIAL HOLDINGS	0.00	09/01/12	20,000,000	15,131,576	14,046,608	1.07%
SECURITY CAP GROUP INC	7.70	06/15/28	2,000,000	2,321,978	2,349,378	0.18%
SOUTHERN UNION CO	7.60	02/01/24	8,000,000	7,484,935	8,164,378	0.62%
SOUTHWEST GAS CORP	7.50	08/01/06	4,000,000	4,006,597	4,006,496	0.30%
SOUTHWEST GAS CORP	8.38	02/15/11	8,000,000	8,005,563	8,714,859	0.66%
SOUTHWESTERN BELL TEL CO	7.00	11/15/27	2,000,000	1,998,034	1,935,174	0.15%
TTX CO	6.05	06/15/16	5,000,000	4,990,228	4,929,450	0.37%
TEXAS GAS TRANSMISSION CORP	7.25	07/15/27	2,000,000	1,859,655	2,187,456	0.17%
TRANSCONTINENTAL GAS PIPE LINE	7.25	12/01/26	2,000,000	2,009,979	2,022,500	0.15%
TRISTATE GENERATION TRANSPORT ASSOC	6.04	01/31/18	7,000,000	7,044,366	6,866,212	0.52%
TYSON FOODS INC	8.25	10/01/11	2,000,000	2,056,270	2,121,165	0.16%
USX MARATHON GROUP	9.38	02/15/12	5,000,000	5,790,975	5,781,825	0.44%
ULTRAMAR DIAMOND SHAMROCK CORP	7.20	10/15/17	2,000,000	1,989,566	2,055,899	0.16%
UNION PACIFIC RESOURCES GROUP INC	7.05	05/15/18	6,000,000	5,949,335	6,174,981	0.47%
UNION TANK CAR CO	7.45	06/01/09	5,000,000	5,000,000	5,229,164	0.40%
VIRGINIA ELECTRIC + POWER CO	5.40	01/15/16	5,000,000	4,969,190	4,708,880	0.36%
WACHOVIA BANK NA	5.60	03/15/16	5,000,000	4,993,313	4,847,985	0.37%
WASHINGTON MUTUAL INC	4.20	01/15/10	6,000,000	5,993,586	5,707,128	0.43%
WESTERN PROPERTIES TRUST	7.20	09/15/08	1,000,000	986,939	1,027,875	0.08%
WESTVACO CORP	7.65	03/15/27	6,000,000	5,978,712	6,328,643	0.48%
WEYERHAEUSER CO	8.50	01/15/25	8,000,000	9,123,222	9,146,177	0.70%
WEYERHAEUSER CO	6.75	03/15/12	3,000,000	3,151,489	3,064,983	0.23%
WILLAMETTE INDUSTRIES INC	7.00	02/01/18	1,000,000	947,315	999,266	0.08%
XANTERRA SOUTH RIM LLC	5.69	12/15/11	8,000,000	8,000,000	7,744,640	0.59%
ZIONS BANCORPORATION	5.65	05/15/14	3,000,000	2,957,525	2,906,022	0.22%
Corporate	**120 Issue(s)**		**702,957,899**	**642,663,155**	**643,216,700**	**48.93%**
FIRST INTERSTATE BANC SYSTEM MONTANA	7.50	10/01/06	1,380,000	1,380,000	1,380,000	0.10%
WILMINGTON TRUST TUCSON ELECTRIC	10.21	01/01/09	2,376,101	2,376,101	2,432,700	0.19%
Corporate (Unrated)	**2 Issue(s)**		**3,756,101**	**3,756,101**	**3,812,700**	**0.29%**
UNITED MEXICAN STATES	5.88	01/15/14	10,000,000	9,933,077	9,700,000	0.74%
Foreign Government Bonds	**1 Issue(s)**		**10,000,000**	**9,933,077**	**9,700,000**	**0.74%**
MONTANA STATE BOARD HOUSING	8.45	08/01/39	1,135,000	1,135,000	1,167,858	0.09%
Municipal Government Bonds(Rated)	**1 Issue(s)**		**1,135,000**	**1,135,000**	**1,167,858**	**0.09%**
CRP (55 issues)	6.00-7.50	11/15/06-15	2,656,472	2,656,472	2,656,472	0.20%
Municipal Government Bonds(Unrated)	**55 Issue(s)**		**2,656,472**	**2,656,472**	**2,656,472**	**0.20%**
BENDER SHIPBUILDING + REPAIR USGG XI	6.20	09/30/12	9,957,643	9,957,643	9,855,179	0.75%
GLOBAL INDUSTRIES LTD USGG XI	7.71	02/15/25	7,600,000	7,600,000	7,473,840	0.57%
GNMA POOL 032974	9.50	09/15/09	18,013	17,556	18,705	0.00%
GNMA POOL 038164	10.00	01/15/10	49,409	49,326	51,916	0.00%
GNMA POOL 039321	10.00	12/15/09	13,202	13,180	13,858	0.00%
GNMA POOL 281467	9.00	09/15/19	8,157	8,131	8,763	0.00%
REINAUER MARITIME CO LLC USGG XI	6.50	06/30/28	18,128,000	18,128,000	18,207,219	1.39%
T T BARGE SERVICES USGG XI	6.45	12/16/12	1,324,700	1,324,700	1,326,290	0.10%
TUNISIA AID USGG XI	6.71	02/01/24	3,794,257	3,629,361	3,794,257	0.29%
VESSEL MANAGEMENT INC USGG XI	6.08	05/20/24	17,472,000	17,472,000	17,879,098	1.36%
U.S. Government Direct-Backed	**10 Issue(s)**		**58,365,381**	**58,199,898**	**58,629,125**	**4.46%**
FEDERAL HOME LOAN POOL B13150	4.00	03/01/19	14,666,724	14,666,724	13,544,395	1.03%
FEDERAL HOME LOAN POOL C01523	5.00	03/01/33	6,378,460	6,328,743	5,990,270	0.46%
FEDERAL HOME LOAN POOL E00247	5.50	10/01/08	208,728	208,476	207,177	0.02%
FEDERAL HOME LOAN POOL E00659	6.00	04/01/14	688,208	687,828	689,902	0.05%
FEDERAL HOME LOAN POOL E01376	4.00	04/01/18	13,672,298	13,584,508	12,669,841	0.96%
FEDERAL HOME LOAN POOL E01418	4.00	07/01/18	13,644,459	13,228,502	12,597,372	0.96%
FEDERAL HOME LOAN POOL E01425	4.50	08/01/18	13,745,700	13,714,274	13,003,339	0.99%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
FEDERAL HOME LOAN POOL E99081	4.50	09/01/18	14,847,850	14,769,567	14,043,755	1.07%
FEDERAL HOME LOAN POOL G02070	5.50	03/01/36	19,667,387	19,234,215	18,902,640	1.44%
FEDERAL HOME LOAN POOL G10814	5.50	05/01/13	483,339	483,091	475,277	0.04%
FEDERAL HOME LOAN POOL G10173	6.00	01/01/09	180,700	180,548	181,060	0.01%
FEDERAL HOME LOAN POOL G11670	4.00	03/01/15	11,778,795	11,608,980	11,004,542	0.84%
FEDERAL HOME LOAN POOL G11777	5.00	10/01/20	18,343,314	18,187,230	17,660,676	1.34%
FEDERAL HOME LOAN POOL G11812	5.00	12/01/20	14,227,108	14,030,003	13,697,652	1.04%
FEDERAL HOME LOAN POOL G30006	7.00	07/01/13	232,654	232,654	237,011	0.02%
FEDERAL HOME LOAN MORTGAGE CORP	5.00	06/18/18	20,000,000	20,000,000	18,821,160	1.43%
FEDERAL HOME LOAN MORTGAGE CORP	4.00	06/12/13	12,000,000	11,192,720	10,927,824	0.83%
FEDERAL HOME LOAN MORTGAGE CORP	4.00	07/18/18	15,000,000	15,000,000	14,178,518	1.08%
FEDERAL HOME LOAN MORTGAGE CORP	4.50	04/02/14	9,000,000	8,972,083	8,353,566	0.64%
FEDERAL HOME LOAN MORTGAGE CORP	5.00	01/30/14	12,000,000	11,996,995	11,555,880	0.88%
FEDERAL HOME LOAN MORTGAGE CORP	4.83	09/23/15	10,000,000	9,373,971	9,375,570	0.71%
FEDERAL HOME LOAN MORTGAGE CORP	8.25	06/01/26	7,000,000	7,229,852	8,698,053	0.66%
FEDERAL HOME LOAN MORTGAGE CORP	0.00	06/05/28	50,000,000	11,230,469	10,970,850	0.83%
FEDERAL HOME LOAN MORTGAGE CORP	0.00	09/14/29	100,000,000	20,543,787	20,224,500	1.54%
FEDERAL HOME LOAN MORTGAGE CORP	0.00	06/21/32	100,000,000	16,745,271	16,620,000	1.26%
FEDERAL HOME LOAN PC REMIC	9.15	10/15/20	85,633	84,804	85,487	0.01%
FEDERAL AGRICULTURAL MORTGAGE CORP	6.71	07/28/14	8,000,000	8,850,869	8,617,368	0.66%
FEDERAL FARM CREDIT BANKS	5.45	04/21/20	6,000,000	5,858,013	5,646,240	0.43%
FEDERAL FARM CREDIT BANKS	5.20	12/27/12	4,000,000	4,000,000	3,913,960	0.30%
FEDERAL HOME LOAN BANKS	4.25	07/17/13	7,000,000	6,593,920	6,465,256	0.49%
FEDERAL HOME LOAN BANKS	6.40	06/03/14	6,000,000	5,695,156	6,314,890	0.48%
FEDERAL HOME LOAN BANK	7.00	08/26/19	7,000,000	6,967,799	7,842,765	0.60%
FEDERAL HOME LOAN BANKS	7.45	02/03/20	10,000,000	10,055,590	11,770,130	0.90%
FEDERAL HOME LOAN BANKS	4.13	08/13/10	15,000,000	15,128,379	14,264,145	1.09%
FEDERAL HOME LOAN BANKS	5.00	08/28/19	10,000,000	10,000,000	9,787,000	0.74%
FEDERAL HOME LOAN BANKS	5.00	05/26/10	5,000,000	5,000,000	4,919,575	0.37%
FEDERAL NATIONAL MORTGAGE ASSOC	6.00	05/15/08	15,000,000	14,877,757	15,141,470	1.15%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	7.25	01/15/10	15,000,000	14,973,117	15,846,305	1.21%
FEDERAL NATIONAL MORTGAGE ASSOC	4.50	08/15/08	10,000,000	10,000,000	9,808,810	0.75%
FNMA POOL 254233	5.00	03/01/17	5,567,419	5,422,222	5,383,216	0.41%
FNMA POOL 254631	5.00	02/01/18	6,743,426	6,774,409	6,509,444	0.50%
FNMA POOL 256083	6.00	01/01/26	23,661,358	23,573,185	23,505,927	1.79%
FNMA POOL 303202	6.50	05/01/14	893,810	888,099	903,285	0.07%
FNMA POOL 313999	6.00	02/01/13	326,389	325,314	327,702	0.02%
FNMA POOL 572220	6.00	03/01/16	716,958	715,437	720,403	0.05%
FNMA POOL 592327	5.50	06/01/16	1,022,557	1,004,743	1,005,900	0.08%
FNMA POOL 725346	4.00	03/01/19	15,128,277	14,988,010	13,984,118	1.06%
FNMA POOL 745250	5.00	01/01/21	19,123,097	19,041,512	18,423,182	1.40%
FNMA POOL 780956	4.50	05/01/19	15,154,883	15,150,744	14,342,785	1.09%
FREDDIE MAC	4.10	01/28/14	30,000,000	30,000,000	28,612,290	2.18%
U S ARMY HOSPITALITY FUND	7.47	05/01/32	9,580,593	9,580,593	10,789,663	0.82%
U.S. Government Indirect-Backed	**51 Issue(s)**		**723,770,124**	**518,980,161**	**509,562,146**	**38.76%**
Total TFBP	**243 Issue(s)**		**1,588,492,464**	**1,323,175,351**	**1,314,596,488**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Short Term Investment Pool, as of June 30, 2006, and 2005, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Short Term Investment Pool, as of June 30, 2006, and 2005, and its changes in net asset value and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
SHORT TERM INVESTMENT POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2006 AND 2005

		2006		2005
Assets				
Cash	$	800,401	$	528,828
Interest receivable		8,833,874		1,385,382
Security lending cash collateral (Notes 3 and 4)		36,071,813		0
Unrealized loss (Note 2)		1,927,165		435,083
Investments managed at fair value (amortized cost of $2,190,772,793 in 2006 and $1,742,735,519 in 2005) (Notes 2, 4 and 8)		2,188,845,628		1,742,300,436
Total assets	$	2,236,478,881	$	1,744,649,729
Liabilities				
Security lending expense payable	$	103,751	$	0
Income due participants		800,365		528,829
Broker payable for securities purchases but not settled (Note 2)		0		3,000,000
Security lending obligations(Notes 3 and 4)		36,071,813		0
Total liabilities	$	36,975,929	$	3,528,829
Net asset value	$	2,199,502,952	$	1,741,120,900
Units Outstanding (Note 2)		2,199,502,952		1,741,120,900
Unit Value (Note 2)	$	1	$	1

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net asset value, beginning of year	$	1,741,120,900	$	1,480,216,590
Value of units purchased by participants		6,986,836,660		6,123,148,064
Value of units sold by participants		(6,528,454,608)		(5,862,243,754)
Net asset value, end of year	$	2,199,502,952	$	1,741,120,900

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Investment income (Note 2)	$	78,852,488	$	35,536,850
Security lending income		1,368,820		0
Security lending expense		(1,363,341)		0
Administrative expenses		(335,877)		(260,729)
Income due participants, beginning of year		528,829		203,236
Income available for distribution		79,050,919		35,479,357
Distribution		78,250,554		34,950,528
Income due participants, end of year	$	800,365	$	528,829

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT TERM INVESTMENT POOL - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. The Short Term Investment Pool (STIP) was created by the Board to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. Although state agencies with accounts that retain their interest earnings are legally required to invest in STIP, local governments may voluntarily participate in STIP.

The purpose of STIP is the preservation of principal, while obtaining money market type returns and 24-hour liquidity. Funds may be invested for relatively short periods - one day or more - depending upon the participant's anticipated use of the funds. The investments and the income from STIP are owned by the participants, as they purchase units, and are managed on their behalf by the Board.

Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Board has as policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. government direct-backed, U.S. government indirect-backed securities, repurchase agreements, and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities float with LIBOR (London Interbank Offered Rate).

Investments held are reported at fair value as of June 30, based on market prices supplied to the Board by the Board's custodial bank. The difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The STIP investment portfolio consists of securities with a maximum maturity of 397 days or less with the exception of securities having rate reset dates. The portfolio is carried at amortized cost or book value.

Participant Units

The STIP unit value is fixed at $1 for both participant buys and sells. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. Participants may buy or sell fractional shares. For fiscal years 2006 and 2005, income was distributed on the first calendar day of each month, with the exception of the June distribution. Income for June 2006 and June 2005 was distributed on the last calendar day of the month. Participants may automatically reinvest their income in additional units.

During fiscal years 2006 and 2005, the Board did not provide or obtain any legally binding guarantees to support the value of the participant units.

Broker Receivable/Payable

STIP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the STIP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Administrative expenses incurred by the Board are charged daily to STIP based on the Board's expenses applicable to STIP.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 102 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively, as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2006, the carrying and fair value of the underlying securities on loan, categorized as U.S. Government indirect-backed bonds, for the Short Term Investment Pool was $35,271,669 and $35,219,601 respectively. The collateral provided for the securities on loan totaled $36,071,813 in cash. As of June 30, 2005, there were no securities on loan.

4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSRO's include Standard and Poors, Moody's, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch.

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

The short term credit ratings presented in the table below are provided by S& P's rating services. An A1+ rating is the highest short term rating by the S&P rating service. If a STIP security received a long term rating, such as AAA, this rating was converted to a short term rating. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all STIP securities were registered in the nominee name for the Montana Board

of Investments and held in the possession of the Board's custodial bank, State Street Bank. According to the STIP Investment Policy, "repurchase agreements require electronic delivery of U.S. Government Treasury collateral, priced at 102 percent market value, to the designated State of Montana Federal Reserve Bank account."

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "minimum three (3%) percent or $15 million, whichever is higher, to be invested in Repurchase Agreements." The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 6.59% as of June 30, 2006. As of June 30, 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7-like pool". Operating as 2a-7 like pool, this exclusion applies to STIP.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

STIP investments are categorized on the next page to disclose credit rate risk as of as of June 30, 2006 and June 30, 2005. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

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Credit Quality Ratings as of June 30, 2006

Security Investment Type		Fair Value	Credit Quality Rating
Commercial Paper	$	1,421,008,799	A1
Corporate Fixed		293,960,550	A1+
Corporate Variable-Rate		224,991,750	A1+
U.S. Government Indirect-Backed		248,884,529	A1+
Total Investments	$	2,188,845,628	A1+
Securities Lending Collateral Investment Pool	$	36,071,813	NR

Credit Quality Ratings as of June 30, 2005

Security Investment Type		Fair Value	Credit Quality Rating
Commercial Paper	$	1,249,527,386	A1
Corporate Fixed		49,821,250	A1+
Corporate Variable-Rate		414,951,800	A1+
Municipal Variable-Rate		6,000,000	NR
Repurchase Agreement*		22,000,000	A1+
Total Investments	$	1,742,300,436	A1+
Securities Lending Collateral Investment Pool	$	0	NR

*** At June 30, 2005, the State Street Bank repurchase agreement was collateralized at a fair value of $22 million by a $17.1 million par, 6.375% coupon, U.S. government Treasury bond maturing August 15, 2027.**

Legal Risk

The Board is not aware of any legal risks regarding any STIP investments.

5. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Implementation of electronic trading for the Short Term Investment Pool and the other fixed income portfolios, as managed by Board Staff, was completed in fiscal year 2006.

6. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT download function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

7. SUBSEQUENT EVENT

On August 24, 2006, the Board approved a revised Investment Policy Statement for STIP. This policy defines objectives, authorized investments, and portfolio diversification and limitations.

8. YEAR END PORTFOLIO

The June 30, 2006 STIP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
ALTAMIRA FUNDING	discount	08/03/06	40,000,000	39,803,833	39,798,800	1.82%
ALTAMIRA FUNDING	discount	08/03/06	30,000,000	29,852,325	29,849,100	1.36%
ANGLO IRISH BANK	discount	07/19/06	40,000,000	39,896,900	39,888,000	1.82%
AQUINAS FUNDING LLC	discount	07/20/06	40,000,000	39,891,489	39,881,600	1.82%
ATOMIUM FUNDING CORP	discount	08/02/06	30,463,000	30,318,402	30,314,036	1.38%
BAVARIA TRR CORP	discount	07/03/06	40,000,000	39,988,622	39,988,400	1.83%
BEETHOVEN FUNDING CORP	discount	07/12/06	40,000,000	39,937,911	39,928,800	1.82%
BHP BILL FINANCE	discount	07/14/06	35,000,000	34,935,794	34,927,200	1.60%
BLACK DIAMOND USA	discount	08/01/06	30,000,000	29,862,308	29,853,300	1.36%
BUNGE ASSET FUNDING	discount	07/10/06	37,258,000	37,210,682	37,208,074	1.70%
CATAPULT PMX FUNDING LLC	discount	07/14/06	40,000,000	39,925,467	39,916,800	1.82%
CHARTA CORP	discount	07/26/06	36,188,000	36,057,572	36,048,676	1.65%
CHECK POINT CHARLIE	discount	07/07/06	31,000,000	30,973,702	30,967,760	1.41%
COBBLER FUNDING	discount	07/25/06	35,420,000	35,296,502	35,288,946	1.61%
COMPASS SECURITIES	discount	07/24/06	18,295,000	18,234,454	18,224,564	0.83%
DZ BK AG DEUTSCHE ZENTRAL	discount	07/07/06	40,000,000	39,966,333	39,958,400	1.83%
EAST FLEET FINANCE	discount	07/24/06	28,633,000	28,535,497	28,522,763	1.30%
FPL FUELS INC	discount	07/31/06	22,725,000	22,626,146	22,646,826	1.03%
GENERAL ELECTRIC CO	discount	07/21/06	40,000,000	39,887,111	39,875,600	1.82%
GOLDEN FISH	discount	07/24/06	45,000,000	44,847,625	44,826,750	2.05%
GOTHAM FUNDING CORP	discount	07/06/06	40,000,000	39,971,611	39,964,400	1.83%
ING U S FUNDING	discount	07/27/06	40,000,000	39,849,778	39,840,000	1.82%
IXIS CORP	discount	07/06/06	50,000,000	49,965,139	49,955,500	2.28%
LIBERTY HARBOR	discount	07/27/06	45,000,000	44,827,425	44,820,000	2.05%
LIBERTY STREET FUNDING	discount	07/03/06	40,000,000	39,988,844	39,988,400	1.83%
MORRIGAN TRR FUNDING	discount	07/28/06	40,000,000	39,841,900	39,834,000	1.82%
NORTH SEA FUNDING EUROPE	discount	07/25/06	20,117,000	20,046,993	20,042,567	0.92%
OLD LINE FUNDING CORP	discount	07/11/06	40,000,000	39,943,611	39,928,800	1.82%
ORCHID FUNDING CORP	discount	07/10/06	40,000,000	39,946,800	39,946,800	1.83%
ORCHID FUNDING CORP	discount	07/14/06	40,000,000	39,923,156	39,916,800	1.82%
RHINELAND FUNDING CAPITAL	discount	07/28/06	60,000,000	59,758,800	59,751,000	2.73%
STARBIRD FUNDING CORP	discount	07/31/06	20,000,000	19,913,500	19,911,200	0.91%
SUNBELT FUNDING CORP	discount	07/18/06	40,000,000	39,903,667	39,887,200	1.82%
SYDNEY CAPITAL INC	discount	07/19/06	40,000,000	39,898,400	39,887,600	1.82%
THAMES ASSET GLOBAL	discount	07/13/06	39,722,000	39,654,804	39,645,337	1.81%
UBS FINANCE DELEWARE	discount	07/17/06	60,000,000	59,864,133	59,857,800	2.73%
WORLD OMNI VEHICLE LEASING	discount	07/05/06	40,000,000	39,977,422	39,970,400	1.83%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
WPS RESOURCES CORP	discount	07/12/06	30,000,000	29,951,142	29,946,600	1.37%
Commercial Paper			**1,424,821,000**	**1,421,275,801**	**1,421,008,799**	**64.92%**
CULLINAN FINANCE	5.000	02/26/07	25,000,000	25,000,000	24,861,750	1.14%
CULLINAN FINANCE	5.200	04/16/07	35,000,000	35,000,000	34,814,500	1.59%
FIVE FINANCE INC	5.700	06/28/07	40,000,000	40,000,000	39,979,200	1.83%
HARRIER FINANCE FUNDING	4.000	08/11/06	50,000,000	50,000,000	49,919,000	2.28%
HBOS TREASURY SERVICES	5.305	04/18/07	30,000,000	30,001,150	29,887,500	1.37%
K2 USA	5.515	06/20/07	40,000,000	40,000,000	39,925,600	1.82%
PREMIER ASSET	4.800	01/30/07	25,000,000	25,000,000	24,856,000	1.14%
THETA CORP	4.913	02/02/07	50,000,000	50,000,000	49,717,000	2.27%
Corporate Fixed			**295,000,000**	**295,001,150**	**293,960,550**	**13.43%**
CHEYNE FINANCE	5.293	08/25/06	25,000,000	24,999,914	25,000,250	1.14%
CHEYNE FINANCE	5.169	11/15/06	25,000,000	24,999,531	25,000,500	1.14%
MERRILL LYNCH + CO INC	5.149	05/14/07	25,000,000	25,000,000	24,998,000	1.14%
PARKLAND USA L L C	5.232	04/19/07	25,000,000	25,000,000	24,998,750	1.14%
PARKLAND USA L L C	5.232	05/22/07	25,000,000	24,998,887	24,995,000	1.14%
PREMIER ASSET	5.159	09/15/06	25,000,000	24,999,479	25,000,250	1.14%
SIGMA FINANCE	5.222	04/26/07	25,000,000	25,000,000	24,997,750	1.14%
STANFIELD VICTORIA FINANCE	5.089	07/31/06	25,000,000	24,999,620	25,000,500	1.14%
STANFIELD VICTORIA FINANCE	5.064	09/01/06	25,000,000	24,999,363	25,000,750	1.14%
Corporate Variable-Rate (Floating Rate)			**225,000,000**	**224,996,794**	**224,991,750**	**10.28%**
FEDERAL HOME LOAN BANK	4.000	09/26/06	20,000,000	19,987,217	19,932,514	0.91%
FEDERAL HOME LOAN BANK	2.750	10/15/06	25,000,000	24,829,460	24,801,710	1.13%
FEDERAL HOME LOAN BANK	5.000	12/22/06	25,000,000	25,000,000	24,926,845	1.14%
FEDERAL HOME LOAN BANK	4.625	01/23/07	25,000,000	24,983,837	24,865,608	1.14%
FEDERAL HOME LOAN BANK	5.000	02/09/07	25,000,000	25,000,000	24,892,253	1.14%
FEDERAL HOME LOAN BANK	5.000	03/13/07	25,000,000	24,977,500	24,901,205	1.14%
FEDERAL NATIONAL MORTAGE	4.000	08/08/06	50,000,000	50,000,000	49,929,780	2.28%
FEDERAL NATIONAL MORTAGE	4.000	08/22/06	25,000,000	24,998,114	24,953,755	1.14%
FEDERAL NATIONAL MORTAGE	2.625	11/15/06	30,000,000	29,722,919	29,680,860	1.36%
U.S. Government Indirect-Backed			**250,000,000**	**249,499,047**	**248,884,529**	**11.37%**
Total STIP			**2,194,821,000**	**2,190,772,793**	**2,188,845,628**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Domestic Equity Pool, as of June 30, 2006, and 2005, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Domestic Equity Pool, as of June 30, 2006, and 2005, and its changes in net asset value and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA DOMESTIC EQUITY POOL FINANCIAL STATEMENTS
STATEMENT OF NET ASSET VALUE JUNE 30, 2006 AND 2005

Assets		2006		2005
Cash	$	0	$	0
Security lending cash collateral (Notes 3 and 4)		12,879,680		28,995,031
Dividend receivable		1,380,655		1,472,227
Interest receivable		3,267,046		92,951
Investments managed at fair value (carrying value of $2,700,870,570 in 2006 and $2,609,202,578 in 2005)(Notes 2, 4 and 8)		3,152,703,754		3,011,913,931
Total assets	$	3,170,231,135	$	3,042,474,140
Liabilities				
Income due participants	$	1,726,250	$	1,988,934
Broker payable for securities purchased but not settled (Note 2)		2,941,532		0
Security lending expense payable		23,669		88,165
Security lending obligations (Notes 3 and 4)		12,879,680		28,995,031
Total liabilities		17,571,131		31,072,130
Net asset value	$	3,152,660,004	$	3,011,402,010
Units Outstanding (Note2)		22,843,210		23,404,482
Unit Value (Note 2)	$	138.01	$	128.67

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net asset value, beginning of year	$	3,011,402,010	$	2,901,726,047
Value of MDEP units purchased by participants (Note 2)		2,119,999		599,999
Value of MDEP units sold by participants (Note 2)		(38,737,365)		(13,396,698)
Changes in fair value of investments managed (Note 2)		177,875,360		122,472,662
Net asset value, end of year	$	3,152,660,004	$	3,011,402,010

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Investment income (Note 2)	$	27,960,398	$	39,004,072
Security lending income		1,304,971		560,697
Security lending expense		(1,265,940)		(531,967)
Administrative expenses (Note 2)		(2,312,898)		(2,460,957)
Income due participants, beginning of year		1,988,934		2,611,096
Income available for distribution		27,675,465		39,182,941
Distribution (Note 2)		25,949,216		37,194,007
Income due participants, end of year	$	1,726,249	$	1,988,934

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA DOMESTIC EQUITY - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. The Montana Common Stock Pool (MTCP) was created by the Board to allow retirement and endowment funds, per section 17-6-201, MCA, the opportunity to participate in the equity market via a diversified pool. MTCP was created as of July 1, 1980, by the transfer of all common stock owned by the Public Employees' Retirement System, Teachers' Retirement System, and other funds into MTCP.

In March 1996, the Board approved the Investment Policy Statement to reflect the name change from the Montana Common Stock Pool to the Montana Stock Pool. The Montana Stock Pool is referred to as "Montcomp" or MTCP. This policy statement provided for the investment in common or preferred stock. The Investment Policy Statement has been subsequently revised and approved to allow investment in the following security types:

September 1996	**Securities convertible into common or preferred stocks**
June 2000	**Equity derivatives**
January 2004	**American Depositary Receipts (ADR's)**

The Board authorized creation of the Montana Domestic Equity Pool (MDEP) in April 2003. Effective May 1, 2003, the pool combined the investments of the Montana Stock Pool (MTCP), Barclays Global Investors (BGI) and Dimensional Fund Advisors (DFA). The nine pension funds transferred $740 million, at cost, of BGI S&P 500 Equity Index investments and DFA Small Cap investments from the All Other Funds portfolio to the MDEP. At the same time, all pension and endowment fund MTCP participants exchanged their MTCP investment for MDEP shares.

There are currently nine separate managers investing funds within the MDEP. The date each manager was first funded, the fair value of each portfolio as of June 30, 2006, and the percent of the MDEP total is shown in the table below:

Investment Manager	Funding Date		June 30, 2006 Fair Value	% of Total
Internal Actively Managed (MTCP)	July 1980	$	1,058,743,931	33.58%
Barclays Global Large Cap* Passive Index	April 2000		1,178,260,318	37.37%
Dimensional Fund Small Cap* Enhanced Index	January 2003		213,902,449	6.78%
Barclays Global Mid Cap* Passive Index	December 2004		191,367,605	6.07%
Western Asset Large Cap* Enhanced Index	June 2006		125,424,632	3.98%
T Rowe Price Large Cap* Enhanced Index	June 2006		124,491,529	3.95%
Goldman Sachs Large Cap* Enhanced Index	June 2006		124,463,571	3.95%
INTECH Large Cap* Enhanced Index	June 2006		124,358,200	3.94%
State Street Bank SPIFF (MDEP)	July 2003		11,691,519	0.37%
Total MDEP		$	**3,152,703,754**	**100.00%**

* Market capitalization "Cap" refers to the value of a corporation as determined by the market price of its issued and outstanding common stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MDEP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADR's) and equity derivatives. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings if the company chooses to pay dividends. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or specific industry composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets.

Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR's are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, "derive" their value from underlying equity instruments.

In June 2000, the Board approved the securitization of MTCP cash by investing in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Portfolio cash is swept daily into SPIFF maintaining 100% equity exposure through holdings of stock index futures. As of June 30, 2006, MTCP cash was invested in the custodial bank's Short Term Investment Fund (STIF). As of June 30, 2005, MTCP cash was invested in SPIFF.

As a liquidity option, the Board approved investment by MTCP in Board's Short Term Investment Pool (STIP) in October 2004. STIP, as an external investment pool, commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Since Board approval, no MTCP cash has been invested in STIP.

The MDEP, as an internal investment pool, invested its excess cash, on pool creation, in STIP. In July 2003, the STIP account was closed and a SPIFF account was opened to securitize MDEP cash by investing in an equity derivative.

On April 26, 2006, the Board approved the staff recommendation to hire four enhanced index equity managers for the MDEP. In implementing this recommendation, the Board transferred over 12.2 million shares in 134 positions held in MTCP to the State Street Transition Account on May 26, 2006. The MDEP sold 1,280,708 MTCP units at a gain of $311,863,123 for shares valued at $449,738,960 in the Transition Account. From the Transition Account, Goldman Sachs, Enhanced Investment Technology (INTECH), T. Rowe Price and Western Asset Management (WAMCO) were funded, each, approximately $125 million in cash and shares of stock. The exact funding amounts, by manager, are listed as by Carrying Value in Note 4.

In February 2005, as directed by the Board to rebalance the MDEP portfolio, staff exchanged 893,504 MTCP units at a gain of $207,282,346 for shares valued at $338,356,609 in the BGI US Equity Restructure Account. The Restructure Account was closed and shares were transferred to the BGI S&P 500 Equity Index Account Fund A at a loss of $2,822,974. This rebalancing transaction represented the transfer of over 8.4 million shares in 114 positions held in MTCP. Subsequent sales of MTCP units for $160 million generated MDEP realized gains of $97.3 million. MTCP sale proceeds were invested in the BGI S&P 500 Equity Index Account Fund A.

In fiscal year 2006, the MDEP sold $50 million in the BGI Equity Index fund and recorded a net gain of $5.7 million.

Other MDEP rebalancing actions in fiscal years 2006 and 2005 included the $65 million and $110 million sales of DFA Small Cap Subtrust shares. These sales resulted in MDEP realized gains of $21.7 million and $27.2 million, respectively.

Investments are presented in the Statement of Net Asset Value at fair value. Equity investments, on valuation date, are stated at the closing price of the security's primary exchange. Carrying value, parenthetically disclosed, represents the equity security purchase price plus a fixed commission where applicable.

Participant Units

The Public Employees' Retirement System and the Teachers' Retirement System transferred all stock owned into MTCP at the start-up date and were issued units according to the fair value of their contribution, retaining their original total cost basis. The initial unit value as of July 1, 1980, was $1,000. Unit values thereafter and until March 31, 2000 were calculated weekly and at the close of the last business day of the month, based on the fair value of MTCP equity holdings and other assets. Effective April 1, 2000, the unit values are calculated daily. Daily unit value calculations were discontinued as of January 1, 2003. Since January 2003, MTCP unit values are calculated weekly and at the close of the last business day of the month. Depending on stock market conditions and the investment officer's decision, MDEP participants may then buy or sell units on the first calendar day of each month based on the month end values.

On July 1, 1994, the initial unit value changed from $1,000 to $100. This change was required for the Board's new accounting system. On August 17, 2000, shareholders, on record, received one MTCP share for each MTCP share held as the result of a 2:1 split. The unit value on August 31, 2000, prior to the split, was $1,014 while the unit value, after the split, was $507.

On May 1, 2003, the pension funds transferred all the BGI S&P 500 Equity Index Fund A and the DFA Small Cap Subtrust investments, at cost, to the MDEP. On the same date, the pension and endowment funds transferred their MTCP investments, at cost, to the MDEP. The pension and endowment funds were issued units according to the fair value of each participant's portfolio. The initial MDEP unit value on May 1, 2003 was $100. On conversion date, MTCP participants exchanged approximately 5.8 million MTCP units, valued at $302 per unit, for 24.1 million MDEP units, issued at $100 per unit.

As reported in the Statement of Changes in Net Asset Value, the value of MDEP units purchased and sold by participants in fiscal years 2006 and 2005 are the result of asset allocation decisions and pool participant's cash needs. The fiscal year 2006 Change in Fair Value of Investments Managed of $177.9 million reflects equity market depreciation of $(134.7) million, participant gain distribution of $(41.5) million and net pool realized gains of $354.0 million. The fiscal year 2005 Change in Fair Value of Investments Managed of $122.5 million represents equity market depreciation of $(196.1) million, participant gain distribution of $(12.7) million and net pool realized gains of $331.3 million.

Broker Receivable/Payable

MDEP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MDEP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Other

Investment income reported in the Statement of Investment Income and Distribution includes dividend accruals, tax reclaim accruals, SPIFF gain/losses and miscellaneous income. MDEP dividends are recorded on the ex-dividend date.

The MDEP Income Available for Distribution is distributed as of the first calendar day of each month. Administrative expenses incurred by the Board are charged daily to MDEP based on the Board's expenses applicable to MDEP. For fiscal years 2006 and 2005, these expenses include $1,342,097 and $1,313,197, respectively, for the Board and the custodial bank contract and $970,801 and $1,147,760, respectively, in external manager fees.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 102 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively, as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2006, the carrying and fair values of the underlying securities on loan of the MTCP for the MDEP were $11,974,345 and $12,629,239 respectively. The collateral provided for the securities on loan totaled $12,879,680 in cash.

As of June 30, 2005, the carrying and fair values of the underlying securities on loan of the MTCP for the MDEP were $28,062,757 and $28,402,082 respectively. The collateral provided for the securities on loan totaled $28,995,031 in cash.

4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, securities held by the separate domestic account managers are registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The BGI S&P 500 Equity Index Fund A, S&P 400 MidCap Equity Index Fund, DFA Small Cap Subtrust, Goldman Sachs and Western Asset (WAMCO) commingled funds are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in pooled investments, such as the BGI Equity Index, Goldman Sachs, Western Asset (WAMCO) and DFA Small Cap Subtrust investments, are excluded from this requirement. As of June 30, 2006 and 2005, there were no single issuer investments that exceeded 5% of the MDEP portfolio.

The MDEP investments are disclosed by investment type in the following table and in Note 8 Year End Portfolio for 2006.

	2006		2005	
Security Investment Type	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Montana Stock Pool (MTCP)*	$ 893,589,136	$ 1,058,743,931	$ 1,272,375,618	$ 1,509,202,412
INTECH Large Cap Enhanced Index	123,837,189	124,358,200	0	0
T Rowe Price Large Cap Enhanced Index	124,602,795	124,491,529	0	0
Total Separate Domestic Accounts	1,142,029,120	1,307,593,660	1,272,375,618	1,509,202,412
Goldman Sachs Large Cap Enhanced Index	125,956,387	124,463,571	0	0
WAMCO Large Cap Enhanced Index US Index Plus	126,937,301	125,424,632	0	0
BGI S&P 500 Passive Equity Index Fund	995,420,725	1,178,260,318	1,039,695,685	1,132,427,186
DFA Small Cap Subtrust	133,993,753	213,902,449	177,282,131	243,808,328
BGI S&P 400 MidCap Passive Equity Index Fund	165,000,000	191,367,605	100,000,000	106,616,769
MDEP Equity Futures (SPIFF)*	11,533,284	11,691,519	19,849,144	19,859,236
Total Investment	$ 2,700,870,570	$ 3,152,703,754	$ 2,609,202,578	$ 3,011,913,931
Securities Lending Collateral Investment Pool	$ 12,879,680	$ 12,879,680	$ 28,995,031	$ 28,995,031

* The Montana Stock Pool (MTCP) Carrying and Fair Value amounts for fiscal year 2005 have been restated to include the MTCP SPIFF Equity Futures Carrying and Fair Value amounts of $7,518,437 and $7,476,150, respectively. The Montana Stock Pool (MTCP) Carrying and Fair Values were previously reported as $1,264,857,181 and $1,501,726,262. The MDEP Equity Futures (SPIFF) amounts have been correspondingly reduced by the Carrying and Fair Value of the SPIFF as invested in MTCP. The SPIFF Carrying and Fair Value investments were previously reported as $27,367,581 and $$27,335,386, respectively.

5. OWENS-CORNING COMPLAINT

On October 11, 2002, the Board received a summons and complaint regarding the bankruptcy of Owens-Corning. The company seeks a determination that the dividend payments paid from October 1996 through July 2000 represent "fraudulent transfers under Chapter 11 Bankruptcy provisions and applicable state law, and are, therefore, voidable". The complaint states the Montana Board of Investments was the "recipient of dividends in the amount of $357,099 for the relevant period". The Board has prepared a response to the complaint. As of September 22, 2006, this matter is still pending.

6. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial

Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Implementation of electronic trading for the Short Term Investment Pool and the other fixed income portfolios, as managed by Board Staff, was completed in fiscal year 2006.

7. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT download function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

8. YEAREND PORTFOLIO

The June 30, 2006 MDEP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Shares	Carrying Value	Fair Value	%
GENERAL ELECTRIC CO	2,017,700	52,075,001	66,503,392	2.11%
EXXON MOBIL CORP	746,500	26,147,045	45,797,775	1.45%
CITIGROUP INC	813,900	16,805,288	39,262,536	1.25%
JOHNSON + JOHNSON	538,500	13,828,997	32,266,920	1.02%
BANK AMERICA CORP	605,700	24,546,214	29,134,170	0.92%
PROCTER AND GAMBLE CO	491,300	24,408,273	27,316,280	0.87%
JPMORGAN CHASE + CO	642,600	23,102,449	26,989,200	0.86%
MICROSOFT CORP	1,155,700	36,145,172	26,927,810	0.85%
ALTRIA GROUP INC	331,100	16,202,312	24,312,673	0.77%
PFIZER INC	950,500	34,854,859	22,308,235	0.71%
WELLS FARGO + CO	325,300	6,831,528	21,821,124	0.69%
WAL MART STORES INC	421,300	20,971,261	20,294,021	0.64%
AMERICAN INTERNATIONAL GROUP INC	337,900	18,085,995	19,952,995	0.63%
UNITED TECHNOLOGIES CORP	285,100	5,423,444	18,081,042	0.57%
PEPSICO INC	290,300	14,681,641	17,429,612	0.55%
GOOGLE INC	41,500	15,921,403	17,402,195	0.55%
CHEVRON CORP	279,200	10,884,499	17,327,152	0.55%
AMGEN INC	250,000	15,498,439	16,307,500	0.52%
INTERNATIONAL BUSINESS MACHINES	207,400	10,045,791	15,932,468	0.51%
CISCO SYSTEMS INC	781,000	11,895,592	15,252,930	0.48%
SCHLUMBERGER LTD	228,900	7,588,860	14,903,679	0.47%
UNITED HEALTH GROUP INC	317,600	12,972,264	14,222,128	0.45%
CONOCOPHILLIPS	209,200	9,062,155	13,708,876	0.43%
AT+T INC	481,100	12,717,080	13,417,879	0.43%
UNITED PARCEL SERVICE INC	161,600	11,486,243	13,304,528	0.42%
ABBOTT LABS	303,500	3,241,906	13,235,635	0.42%
LILLY ELI + CO	233,000	13,582,862	12,877,910	0.41%
ORACLE CORP	836,100	11,942,458	12,115,089	0.38%
COCA COLA CO	279,300	12,836,892	12,015,486	0.38%
MOTOROLA INC	594,400	11,068,348	11,977,160	0.38%
TEXAS INSTRUMENTS INC	387,100	14,446,734	11,725,259	0.37%
INTEL CORP	602,200	6,113,233	11,411,690	0.36%

Security Name	Shares	Carrying Value	Fair Value	%
APPLE COMPUTER	185,200	7,707,746	10,578,624	0.34%
QUALCOMM INC	263,700	9,072,919	10,566,459	0.34%
MERRILL LYNCH + CO INC	147,000	8,516,993	10,225,320	0.32%
TARGET CORP	209,000	10,056,557	10,213,830	0.32%
HOME DEPOT INC	283,700	10,890,846	10,153,623	0.32%
TYCO INTERNATIONAL LTD	369,000	10,176,737	10,147,500	0.32%
3M CO	121,500	7,672,544	9,813,555	0.31%
MORGAN STANLEY	152,900	7,865,260	9,664,809	0.31%
COMCAST CORP	292,700	7,962,338	9,582,998	0.30%
WYETH	215,500	11,893,002	9,570,355	0.30%
MEDTRONIC INC	193,500	9,085,139	9,079,020	0.29%
HEWLETT PACKARD CO	284,900	6,118,098	9,025,632	0.29%
TRANSOCEAN INC	110,600	5,932,005	8,883,392	0.28%
BANK NEW YORK INC	270,600	9,845,333	8,713,320	0.28%
DISNEY WALT CO	278,900	8,212,946	8,367,000	0.27%
AMERICAN EXPRESS CO	156,100	5,638,909	8,307,642	0.26%
HALLIBURTON CO	111,600	3,423,028	8,281,836	0.26%
BOEING CO	98,900	8,595,697	8,100,899	0.26%
SLM CORP	149,100	8,182,649	7,890,372	0.25%
DELL INC	308,700	10,764,373	7,535,367	0.24%
YAHOO INC	227,800	7,222,748	7,517,400	0.24%
TIME WARNER INC	425,300	12,655,475	7,357,690	0.23%
BEST BUY CO INC	133,700	5,126,451	7,332,108	0.23%
HONEYWELL INTERNATIONAL INC	175,000	7,098,533	7,052,500	0.22%
ZIMMER HOLDINGS INC	121,900	8,586,671	6,914,168	0.22%
WELLPOINT INC	94,200	6,501,958	6,854,934	0.22%
GOLDMAN SACHS GROUP INC	43,100	4,531,616	6,483,533	0.21%
WACHOVIA CORP	119,700	4,485,964	6,473,376	0.21%
NATIONAL OILWELL VARCO INC	97,400	6,175,893	6,167,368	0.20%
DEVON ENERGY CORPORATION	101,400	6,221,513	6,125,574	0.19%
AFLAC INC	129,300	5,952,836	5,993,055	0.19%
FEDERAL NATIONAL MORTGAGE ASSN	124,000	7,465,182	5,964,400	0.19%
CAREMARK RX INC	117,800	4,057,550	5,874,686	0.19%
NII HOLDINGS INC	102,000	4,954,844	5,750,760	0.18%
ADOBE SYSTEMS INC	187,700	6,813,369	5,698,572	0.18%
GENENTECH INC	69,200	5,838,414	5,660,560	0.18%
MONSANTO CO	66,500	4,304,969	5,598,635	0.18%
EMC CORP	507,400	8,227,139	5,566,178	0.18%
VERIZON COMMUNICATIONS	161,900	4,961,593	5,422,031	0.17%
US BANCORP	175,300	5,057,390	5,413,264	0.17%
CAPITAL ONE FINANCIAL CORP	62,200	5,127,219	5,314,990	0.17%
MELLON FINANCIAL CORP	152,400	6,254,847	5,247,132	0.17%
THE ST PAUL TRAVELERS COS INC	117,700	5,026,452	5,247,066	0.17%
WRIGLEY WM JR CO	114,500	6,090,530	5,193,720	0.16%
AETNA INC	128,500	4,910,864	5,131,005	0.16%
APACHE CORP	75,100	4,746,770	5,125,575	0.16%
CORNING INC	210,300	5,545,132	5,087,157	0.16%
WALGREEN CO	108,800	3,474,374	4,878,592	0.15%
GILEAD SCIENCES INC	82,200	4,934,383	4,862,952	0.15%
FEDERAL HOME LOAN MORTGAGE CORP	85,000	4,570,496	4,845,850	0.15%
LOWES COS INC	79,000	4,970,418	4,792,930	0.15%
ANALOG DEVICES INC	148,600	5,616,138	4,776,004	0.15%
BED BATH + BEYOND INC	143,600	5,343,548	4,763,212	0.15%
SPRINT NEXTEL CORP	237,600	5,231,881	4,749,624	0.15%
EBAY INC	160,600	6,368,972	4,703,974	0.15%
MAXIM INTEGRATED PRODUCTS INC	146,400	5,621,624	4,700,904	0.15%
SYSCO CORP	152,100	4,838,579	4,648,176	0.15%
ALLTEL CORP	72,400	4,420,598	4,621,292	0.15%
NEWS CORP	238,700	4,132,248	4,578,266	0.15%
CVS CORP	148,500	3,999,715	4,558,950	0.14%
EMERSON ELEC CO	51,800	2,029,049	4,341,358	0.14%
BRISTOL MYERS SQUIBB CO	165,700	5,809,666	4,285,002	0.14%
GLOBAL SANTA FE CORPORATION	74,000	4,371,925	4,273,500	0.14%

Security Name	Shares	Carrying Value	Fair Value	%
VIACOM INC	116,600	5,085,026	4,178,944	0.13%
SAP AKTIENGESELLSCHAFT	76,000	3,754,303	3,991,520	0.13%
NOKIA CORP	191,300	4,032,383	3,875,738	0.12%
ALLERGAN INC	34,200	3,240,644	3,668,292	0.12%
CENDANT CORP	219,300	3,832,908	3,572,397	0.11%
APPLIED MATERIALS INC	207,100	3,184,109	3,371,588	0.11%
ACCENTURE LTD	117,500	3,050,086	3,327,600	0.11%
STARBUCKS CORP	87,500	3,113,705	3,304,000	0.10%
TEXTRON INC	35,500	3,305,985	3,272,390	0.10%
NIKE INC	38,700	3,260,971	3,134,700	0.10%
STRYKER CORP	73,300	3,358,542	3,086,663	0.10%
PAYCHEX INC	78,400	2,929,239	3,056,032	0.10%
AMBAC FINANCIAL GROUP INC	37,400	2,952,888	3,033,140	0.10%
FORTUNE BRANDS INC	42,600	2,235,337	3,025,026	0.10%
AUTOMATIC DATA PROCESSING INC	66,200	2,974,143	3,002,170	0.10%
DU PONT E I DE NEMOURS + CO	71,200	2,810,195	2,961,920	0.09%
COSTCO WHOLESALE CORP	51,500	2,796,733	2,942,195	0.09%
WILLIAMS COS INC	120,100	2,510,907	2,805,536	0.09%
AUTODESK INCORPORATED	80,100	3,026,178	2,760,246	0.09%
AIR PRODS + CHEMS INC	41,000	2,020,915	2,620,720	0.08%
FRANKLIN RES INC	28,900	2,550,986	2,508,809	0.08%
STAPLES INC	99,100	2,382,715	2,410,112	0.08%
CARNIVAL CORP	54,500	2,570,518	2,274,830	0.07%
EXPRESS SCRIPTS INC	30,600	2,269,175	2,195,244	0.07%
JUNIPER NETWORKS INC	132,000	2,107,078	2,110,680	0.07%
DAVITA INC	41,000	2,055,798	2,037,700	0.06%
HERSHEY CO	36,000	2,041,176	1,982,520	0.06%
CELGENE CORP	41,000	1,637,081	1,944,630	0.06%
MCDONALDS CORP	57,600	1,979,163	1,935,360	0.06%
CHINA UNICOM	190,000	1,836,173	1,692,900	0.05%
CINTAS CORP	42,300	1,769,893	1,681,848	0.05%
MERCK + CO INC	41,700	1,385,339	1,519,131	0.05%
LEHMAN BROTHERS HOLDINGS INC	22,800	1,495,342	1,485,420	0.05%
KOHLS CORP	23,700	1,254,664	1,401,144	0.04%
EXELON CORP	23,000	1,275,813	1,307,090	0.04%
DANAHER CORP	19,700	1,239,944	1,267,104	0.04%
UNION PAC CORP	13,400	1,217,110	1,245,664	0.04%
PROGRESSIVE CORP OHIO	48,300	1,294,465	1,241,793	0.04%
LOEWS CORP	33,200	1,119,360	1,176,940	0.04%
FIFTH THIRD BANCORP	31,400	1,193,486	1,160,230	0.04%
PRUDENTIAL FINANCIAL INC	14,100	1,060,664	1,095,570	0.03%
BELLSOUTH CORP	28,000	952,032	1,013,600	0.03%
MEDCO HEALTH SOLUTIONS INC	17,300	917,945	990,944	0.03%
CARDINAL HEALTH INC	15,200	1,011,024	977,816	0.03%
E TRADE FINANCIAL CORP	42,400	975,017	967,568	0.03%
HARTFORD FINANCIAL SERVICES GRP	11,000	954,207	930,600	0.03%
COLGATE PALMOLIVE CO	15,500	937,567	928,450	0.03%
NATIONAL CITY CORP	25,600	944,895	926,464	0.03%
MOODYS CORP	17,000	899,619	925,820	0.03%
AON CORP	26,500	940,614	922,730	0.03%
BURLINGTON NORTHERN SANTA FE	11,400	855,476	903,450	0.03%
BAKER HUGHES INC	10,600	891,720	867,610	0.03%
MARSH + MCLENNAN COS INC	32,200	899,279	865,858	0.03%
FIRST DATA CORP	19,100	877,822	860,264	0.03%
FIRST ENERGY CORP	15,800	823,935	856,518	0.03%
GENERAL DYNAMICS CORP	13,000	822,168	850,980	0.03%
STATE STREET CORPORATION	14,600	894,534	848,114	0.03%
NORFOLK SOUTHERN CORP	15,900	822,375	846,198	0.03%
OFFICE DEPOT INC	20,700	839,436	786,600	0.02%
JOHNSON CTLS INC	9,500	782,504	781,090	0.02%
SYNOVUS FINANCIAL CORP	29,000	759,091	776,620	0.02%
VALERO ENERGY CORP	11,600	707,734	771,632	0.02%
EDISON INTERNATIONAL	18,600	714,888	725,400	0.02%

Security Name	Shares	Carrying Value	Fair Value	%
GENWORTH FINANCIAL INC	20,800	688,101	724,672	0.02%
ARCHSTONE SMITH TR	13,900	673,702	707,093	0.02%
BAXTER INTERNATIONAL INC	19,200	725,403	705,792	0.02%
ROBERT HALF INTERNATIONAL INC	16,700	679,829	701,400	0.02%
CIGNA CORP	7,100	660,405	699,421	0.02%
METLIFE INC	13,600	689,332	696,456	0.02%
ROCKWELL COLLINS INC	12,200	659,758	681,614	0.02%
SOUTHWEST AIRLINES CO	41,100	644,737	672,807	0.02%
AMERISOURCEBERGEN CORP	16,000	696,570	670,720	0.02%
MCGRAW HILL COS INC	13,300	683,786	668,059	0.02%
MCKESSON CORP	13,900	676,001	657,192	0.02%
SCHERING PLOUGH CORP	34,200	653,536	650,826	0.02%
KELLOGG CO	13,400	629,934	648,962	0.02%
AMERIPRISE FINANCIAL INC	14,500	640,583	647,715	0.02%
SUNTRUST BANKS INC	8,400	633,737	640,584	0.02%
KROGER CO	29,200	583,662	638,312	0.02%
NEWMONT MNG CORP	11,800	605,898	624,574	0.02%
ILLINOIS TOOL WKS INC	13,100	647,038	622,250	0.02%
TELUS CORP	15,100	618,949	609,738	0.02%
SAFEWAY INC	23,000	535,996	598,000	0.02%
CATERPILLAR INC	8,000	572,275	595,840	0.02%
ST JUDE MED INC	18,300	625,140	593,286	0.02%
HUMANA INC	11,000	548,559	590,700	0.02%
ENTERGY CORP	8,300	576,871	587,225	0.02%
SUN MICROSYSTEMS INC	141,400	646,645	586,810	0.02%
AMERICAN TOWER CORP	18,600	571,048	578,832	0.02%
JABIL CIRCUIT INC	22,600	740,051	578,560	0.02%
COUNTRYWIDE FINANCIAL CORP	15,100	581,910	575,008	0.02%
BB+T CORP	13,800	572,584	573,942	0.02%
PUBLIC SERVICE ENTERPRISE GROUP	8,600	539,956	568,632	0.02%
ANHEUSER BUSCH COS INC	12,400	564,809	565,316	0.02%
CROWN CASTLE INTERNATIONAL CORP	16,200	514,672	559,548	0.02%
GENERAL MILLS INC	10,800	558,561	557,928	0.02%
GENUINE PARTS CO	13,300	573,135	554,078	0.02%
BJ SERVICES CO	14,600	510,991	543,996	0.02%
SCHWAB CHARLES CORP	33,100	553,117	528,938	0.02%
ANADARKO PETE CORP	11,000	537,538	524,590	0.02%
DUKE ENERGY HOLDING CORP	17,800	504,084	522,786	0.02%
EQUITY RESIDENTIAL	11,600	511,204	518,868	0.02%
BROWN FORMAN CORP	7,200	542,013	514,440	0.02%
INTERNATIONAL GAME TECHNOLOGY	13,400	491,256	508,396	0.02%
EOG RESOURCES INC	7,200	452,761	499,248	0.02%
MEDIMMUNE INC	18,300	558,531	495,930	0.02%
HOSPIRA INC	11,300	489,516	485,222	0.02%
ITT CORP	9,800	508,939	485,100	0.02%
FIRST HORIZON NATIONAL CORP	12,000	483,480	482,400	0.02%
WHIRLPOOL CORP	5,800	512,287	479,370	0.02%
CUMMINS INC	3,900	418,922	476,775	0.02%
MARATHON OIL CORP	5,700	425,641	474,810	0.02%
NUCOR CORP	8,600	452,789	466,550	0.01%
BROADCOM CORP	15,500	509,325	465,775	0.01%
NEWELL RUBBERMAID INC	17,900	468,181	462,357	0.01%
AGILENT TECHNOLOGIES INC	14,500	495,511	457,620	0.01%
PNC FINANCIAL SERVICES GROUP INC	6,500	444,421	456,105	0.01%
OMNICOM GROUP	5,100	476,775	454,359	0.01%
BOSTON SCIENTIFIC CORP	26,900	535,041	452,996	0.01%
BOSTON PPTYS INC	5,000	430,163	452,000	0.01%
ARCHER DANIELS MIDLAND CO	10,900	443,882	449,952	0.01%
KINDER MORGAN INC	4,500	379,485	449,505	0.01%
NORTHERN TRUST CORP	8,100	448,945	447,930	0.01%
LINCOLN NATIONAL CORP IN	7,900	440,067	445,876	0.01%
AMAZON COM INC	11,500	399,518	444,820	0.01%
OCCIDENTAL PETE CORP	4,300	414,462	440,965	0.01%

Security Name	Shares	Carrying Value	Fair Value	%
DOVER CORP	8,900	429,687	439,927	0.01%
DOW CHEM CO	11,200	443,211	437,136	0.01%
MURPHY OIL CORP	7,700	393,980	430,122	0.01%
PRINCIPAL FINANCIAL GROUP	7,700	417,584	428,505	0.01%
LEGG MASON INC	4,300	412,351	427,936	0.01%
M + T BK CORP	3,600	413,741	424,512	0.01%
TEKTRONIX INC	14,300	442,050	420,706	0.01%
HARMAN INTERNATIONAL INDS INC	4,900	409,156	418,313	0.01%
THERMO ELECTRON CORP	11,500	418,128	416,760	0.01%
CLOROX CO	6,800	425,935	414,596	0.01%
GRAINGER W W INC	5,500	395,390	413,765	0.01%
TJX COS INC	18,000	424,867	411,480	0.01%
INTUIT	6,800	369,260	410,652	0.01%
FEDEX CORP	3,400	368,561	397,324	0.01%
TXU CORP	6,600	375,305	394,614	0.01%
ECOLAB INC	9,700	372,687	393,626	0.01%
REYNOLDS AMERN INC	3,400	377,974	392,020	0.01%
KERR MCGEE CORP	5,600	290,448	388,360	0.01%
UNIVISION COMMUNICATIONS INC	11,500	407,248	385,250	0.01%
SAFECO CORP	6,800	374,184	383,180	0.01%
ZIONS BANCORP	4,900	392,455	381,906	0.01%
GENERAL MOTORS CORP	12,800	341,420	381,312	0.01%
LOCKHEED MARTIN CORP	5,300	385,776	380,222	0.01%
AES CORP	20,500	372,710	378,225	0.01%
MYLAN LABS INC	18,800	393,046	376,000	0.01%
COVENTRY HEALTH CARE INC	6,800	349,180	373,592	0.01%
KING PHARMACEUTICALS INC	21,700	381,473	368,900	0.01%
PPL CORP	11,300	337,867	364,990	0.01%
PROLOGIS	7,000	349,039	364,840	0.01%
CHUBB CORP	7,300	365,266	364,270	0.01%
SEMPRA ENERGY	7,800	349,269	354,744	0.01%
SUNOCO INC	5,100	342,234	353,379	0.01%
PG+E CORP	8,900	350,466	349,592	0.01%
XILINX INC	15,400	381,631	348,810	0.01%
CENTURYTEL INC	9,300	328,316	345,495	0.01%
INTERNATIONAL PAPER CO	10,600	352,195	342,380	0.01%
SYMBOL TECHNOLOGIES INC	31,400	360,323	338,806	0.01%
CAMPBELL SOUP CO	9,100	316,905	337,701	0.01%
WASHINGTON MUTUAL INC	7,400	337,340	337,292	0.01%
DOMINION RES INC VA	4,500	327,577	336,555	0.01%
MCAFEE INC	13,700	320,694	332,499	0.01%
WASTE MANGEMENT INC	9,200	331,858	330,096	0.01%
RAYTHEON CO	7,300	328,872	325,361	0.01%
CITRIX SYS INC	8,100	305,485	325,134	0.01%
CSX CORP	4,600	304,013	324,024	0.01%
CIRCUIT CITY STORES INC	11,900	346,487	323,918	0.01%
APPLERA CORP APPLIED BIOSYS	10,000	294,003	323,500	0.01%
GOODRICH CORP	8,000	335,771	322,320	0.01%
CITIZENS COMMUNICATIONS CO	24,000	303,576	313,200	0.01%
DONNELLEY R R + SONS CO	9,800	313,497	313,110	0.01%
DARDEN RESTAURANTS INC	7,900	286,241	311,260	0.01%
PRICE T ROWE GROUP INC	8,200	318,878	310,042	0.01%
BEAR STEARNS COS INC	2,200	288,362	308,176	0.01%
CHICAGO MERCANTILE EXCHANGE	620	271,944	304,513	0.01%
FOREST LABS INC	7,800	290,152	301,782	0.01%
SANDISK CORP	5,900	325,725	300,782	0.01%
MONSTER WORLDWIDE INC	7,000	345,604	298,620	0.01%
CAPITALSOURCE INC	12,700	293,522	297,942	0.01%
PHELPS DODGE CORP	3,600	299,627	295,776	0.01%
NORTHROP GRUMMAN CORP	4,600	297,113	294,676	0.01%
TIFFANY + CO	8,900	289,342	293,878	0.01%
ACE LTD	5,800	298,690	293,422	0.01%
LAMAR ADVERTISING CO	5,400	296,291	290,844	0.01%

Security Name	Shares	Carrying Value	Fair Value	%
TD AMERITRADE HOLDING CORP	19,400	329,164	287,314	0.01%
MILLIPORE CORP	4,500	313,674	283,455	0.01%
CIT GROUP INC	5,300	269,520	277,137	0.01%
BMC SOFTWARE INC	11,500	234,702	274,850	0.01%
SIMON PPTY GROUP INC	3,300	263,908	273,702	0.01%
NVIDIA CORP	12,700	293,583	270,383	0.01%
LUCENT TECHNOLOGIES INC	111,400	285,731	269,588	0.01%
AVERY DENNISON CORP	4,600	270,792	267,076	0.01%
BHP BILLITON LTD	6,200	268,219	267,034	0.01%
SHERWIN WILLIAMS CO	5,600	265,838	265,888	0.01%
HESS CORP	5,000	245,188	264,250	0.01%
ELECTRONIC DATA SYS CORP	10,900	266,317	262,254	0.01%
TORCHMARK INC	4,300	250,718	261,096	0.01%
NABORS INDUSTRIES LTD	7,700	271,486	260,183	0.01%
GRANT PRIDECO INC	5,800	264,961	259,550	0.01%
MICRON TECHNOLOGY INC	17,100	275,597	257,526	0.01%
RYDER SYS INC	4,400	233,878	257,092	0.01%
FEDERATED INVS INC PA	8,100	259,339	255,150	0.01%
AMERICAN STD COS INC	5,800	247,751	250,966	0.01%
ROGERS COMMUNICATIONS INC	6,200	253,162	250,480	0.01%
COMERICA INC	4,800	262,756	249,552	0.01%
FISERV INC	5,500	235,708	249,480	0.01%
TOTAL SA	3,800	246,247	248,976	0.01%
KIMBERLY CLARK CORP	4,000	242,164	246,800	0.01%
LINEAR TECHNOLOGY CORP	7,300	244,429	244,477	0.01%
SABRE HOLDINGS CORP	11,100	236,254	244,200	0.01%
NATIONAL SEMICONDUCTOR CORP	10,000	252,469	238,500	0.01%
FEDERATED DEPT STORES INC	6,500	230,650	237,900	0.01%
FMC TECHNOLOGIES INC	3,500	229,443	236,110	0.01%
HARRAHS ENTERTAINMENT INC	3,300	248,395	234,894	0.01%
XTO ENERGY INC	5,300	213,537	234,631	0.01%
PINNACLE WEST CAP CORP	5,800	226,083	231,478	0.01%
COMPUTER SCIENCES CORP	4,700	259,207	227,668	0.01%
CBOT HOLDINGS INC	1,900	197,430	227,221	0.01%
LENNAR CORP	5,100	244,276	226,287	0.01%
EATON CORP	3,000	216,870	226,200	0.01%
MARVELL TECHNOLOGY GROUP LTD	5,100	243,414	226,083	0.01%
DOW JONES + CO INC	6,400	220,866	224,064	0.01%
MEREDITH CORP	4,500	224,898	222,930	0.01%
NORDSTROM INC	6,100	216,295	222,650	0.01%
MOLEX INC	6,600	230,308	221,562	0.01%
AUTONATION INC	10,300	221,962	220,832	0.01%
AVON PRODS INC	7,100	224,131	220,100	0.01%
REGIONS FINANCIAL CORP	6,600	223,470	218,592	0.01%
EQUIFAX INC	6,300	223,771	216,342	0.01%
MANOR CARE INC	4,600	214,093	215,832	0.01%
GENZYME CORP	3,500	208,002	213,675	0.01%
ROSS STORES INC	7,600	210,176	213,180	0.01%
CONSOL ENERGY INC	4,500	201,387	210,240	0.01%
REPUBLIC SERVICES INC	5,200	211,305	209,768	0.01%
BIOGEN IDEC INC	4,500	211,455	208,485	0.01%
MGIC INVT CORP	3,200	209,293	208,000	0.01%
ALCOA INC	6,400	200,253	207,104	0.01%
PITNEY BOWES INC	5,000	207,871	206,500	0.01%
YUM BRANDS INC	4,100	208,150	206,107	0.01%
LABORATORY CORP AMER HOLDINGS	3,300	197,953	205,359	0.01%
RED HAT INC	8,700	211,102	203,580	0.01%
ECHOSTAR COMMUNICATIONS CORP	6,600	198,601	203,346	0.01%
PENNEY J C INC	3,000	179,644	202,530	0.01%
BARR PHARMACEUTICALS INC	4,200	218,983	200,298	0.01%
WENDYS INTERNATIONAL INC	3,400	200,439	198,186	0.01%
ALLEGHENY TECHNOLOGIES INC	2,800	175,893	193,872	0.01%
WEYERHAEUSER CO	3,100	197,975	192,975	0.01%

Security Name	Shares	Carrying Value	Fair Value	%
PEPSI BOTTLING GROUP INC	6,000	188,473	192,900	0.01%
MARRIOTT INTERNATIONAL INC	5,000	180,444	190,600	0.01%
SHIRE PLC	4,300	186,196	190,189	0.01%
XL CAPITAL LTD	3,100	194,289	190,030	0.01%
HEINZ H J CO	4,600	193,831	189,612	0.01%
SOUTHERN CO	5,800	183,791	185,890	0.01%
LIBERTY MEDIA HOLDING CORP	2,900	180,894	183,074	0.01%
CONSOLIDATED EDISON INC	4,100	179,472	182,204	0.01%
COOPER INDUSTRIES LTD	1,900	164,961	176,548	0.01%
XCEL ENERGY INC	9,200	170,574	176,456	0.01%
COCA COLA ENTERPRISES INC	8,600	168,629	175,182	0.01%
STARWOOD HOTELS + RESORTS INC	2,900	177,590	174,986	0.01%
PALL CORP	6,100	182,024	170,800	0.01%
PARKER HANNIFIN CORP	2,200	167,599	170,720	0.01%
CONVERGYS CORP	8,700	160,071	169,650	0.01%
KEYCORP	4,700	167,525	167,696	0.01%
FLUOR CORP	1,800	159,891	167,274	0.01%
AMSOUTH BANCORPORATION	6,200	167,191	163,990	0.01%
FLEXTRONICS INTERNATIONAL LTD	15,400	174,453	163,548	0.01%
GOLDEN WEST FINANCIAL CORP	2,200	159,528	163,240	0.01%
UNUM PROVIDENT CORP	9,000	159,339	163,170	0.01%
AFFILIATED COMPUTER SERVICES INC	3,100	153,274	159,991	0.01%
GANNETT INC	2,800	153,236	156,604	0.00%
NAVTEQ CORP	3,500	147,239	156,380	0.00%
KIMCO RLTY CORP	4,100	147,992	149,609	0.00%
FREEPORT MCMORAN COPPER + GOLD	2,700	151,227	149,607	0.00%
SNAP ON INC	3,700	150,677	149,554	0.00%
QLOGIC CORP	8,600	150,912	148,264	0.00%
CONSTELLATION ENERGY GROUP INC	2,700	139,872	147,204	0.00%
WEATHERFORD INTERNATIONAL LTD	2,900	146,166	143,898	0.00%
IMS HEALTH INC	5,300	143,390	142,305	0.00%
TECO ENERGY INC	9,400	138,395	140,436	0.00%
VULCAN MATLS CO	1,800	139,994	140,400	0.00%
NRG ENERGY INC	2,900	125,527	139,722	0.00%
SYMANTEC CORP	8,900	138,361	138,306	0.00%
MCCORMICK + CO INC	4,100	140,631	137,555	0.00%
WATSON PHARMACEUTICALS INC	5,800	147,519	135,024	0.00%
AGL RES INC	3,500	126,128	133,420	0.00%
ADVANCED MICRO DEVICES INC	5,400	165,844	131,868	0.00%
D R HORTON INC	5,500	145,538	131,010	0.00%
V F CORP	1,900	118,361	129,048	0.00%
COMPASS BANCSHARES INC	2,300	127,402	127,880	0.00%
ALCAN INC	2,700	138,107	126,738	0.00%
TELLABS INC	9,500	134,795	126,445	0.00%
CLEAR CHANNEL COMMUNICATIONS	3,900	120,450	120,705	0.00%
TEMPLE INLAND INC	2,800	119,198	120,036	0.00%
ALCON INC	1,200	127,803	118,260	0.00%
AVAYA INC	10,300	117,948	117,626	0.00%
TRIBUNE CO	3,600	107,629	116,748	0.00%
HILTON HOTELS CORP	4,100	112,493	115,948	0.00%
AUTOZONE INC	1,300	116,155	114,660	0.00%
FREESCALE SEMICONDUCTOR INC	3,900	120,551	114,660	0.00%
PANERA BREAD CO	1,700	109,763	114,308	0.00%
ALLEGHENY ENERGY INC	3,000	107,751	111,210	0.00%
DYNEGY INC	20,200	101,323	110,494	0.00%
HCA INC	2,500	109,510	107,875	0.00%
BIG LOTS INC	6,300	100,020	107,604	0.00%
ELECTRONIC ARTS INC	2,500	106,076	107,600	0.00%
AXIS CAPITAL HOLDINGS LTD	3,700	98,689	105,857	0.00%
MARSHALL + ILSLEY CORP	2,300	104,112	105,202	0.00%
AFFILIATED MANAGERS GROUP INC	1,200	108,653	104,268	0.00%
ALLSTATE CORP	1,900	103,852	103,987	0.00%
POTASH CORP SASK INC	1,200	109,006	103,164	0.00%

Security Name	Shares	Carrying Value	Fair Value	%
AMERICAN ELECTRIC POWER INC	3,000	101,040	102,750	0.00%
NCR CORP	2,800	107,034	102,592	0.00%
PATTERSON COS INC	2,900	100,190	101,297	0.00%
SCRIPPS E W CO OH	2,300	106,979	99,222	0.00%
CDW CORP	1,800	99,766	98,370	0.00%
AMEREN CORP	1,900	92,882	95,950	0.00%
FISHER SCIENTIFIC INTERNATIONAL INC	1,300	95,879	94,965	0.00%
SIGMA ALDRICH	1,300	89,670	94,432	0.00%
KLA TENCOR CORP	2,200	89,398	91,454	0.00%
PUBLIC STORAGE INC	1,200	87,218	91,080	0.00%
WYNN RESORTS LTD	1,200	84,355	87,960	0.00%
MATTEL INC	5,300	88,662	87,503	0.00%
HARLEY DAVIDSON INC	1,500	74,953	82,335	0.00%
ALLIED WASTE INDUSTRIES INC	7,200	82,730	81,792	0.00%
NETWORK APPLIANCE INC	2,300	78,754	81,190	0.00%
PRAXAIR INC	1,500	78,825	81,000	0.00%
BRUNSWICK CORP	2,400	85,957	79,800	0.00%
ROCKWELL AUTOMATION INC	1,100	72,498	79,211	0.00%
CEPHALON INC	1,300	76,326	78,130	0.00%
WASHINGTON POST CO	100	80,015	78,001	0.00%
CHESAPEAKE ENERGY CORP	2,500	74,650	75,625	0.00%
COMMERCE BANCORP INC N J	2,100	81,310	74,907	0.00%
NICOR INC	1,800	73,158	74,700	0.00%
MOLSON COORS BREWING CO	1,100	72,194	74,668	0.00%
COMMUNITY HEALTH SYSTEMS INC	2,000	74,858	73,500	0.00%
QUEST DIAGNOSTICS INC	1,200	68,352	71,904	0.00%
WILLIS GROUP HOLDINGS LTD	2,200	75,374	70,620	0.00%
SUPERVALU INC	2,211	65,650	67,884	0.00%
COMVERSE TECHNOLOGY INC	3,400	76,939	67,218	0.00%
FPL GROUP INC	1,600	62,559	66,208	0.00%
VERISIGN INC	2,800	62,711	64,876	0.00%
JONES APPAREL GROUP INC	2,000	64,398	63,580	0.00%
NISOURCE INC	2,900	63,194	63,336	0.00%
SEALED AIR CORP	1,200	61,269	62,496	0.00%
APOLLO GROUP INC	1,200	62,252	62,004	0.00%
STANDARD PAC CORP	2,400	72,506	61,680	0.00%
BECTON DICKINSON + CO	1,000	59,889	61,130	0.00%
OFFICEMAX INC	1,500	62,606	61,125	0.00%
CINCINNATI FINANCIAL CORP	1,300	59,036	61,113	0.00%
PERKINELMER INC	2,900	58,749	60,610	0.00%
L 3 COMMUNICATIONS HOLDING CORP	800	62,148	60,336	0.00%
EQUITY OFFICE PPTYS TR	1,600	54,016	58,416	0.00%
WHOLE FOODS MARKET INC	900	58,080	58,176	0.00%
CA INC	2,800	60,212	57,540	0.00%
BOWATER INC	2,500	59,860	56,875	0.00%
DOLLAR GEN CORP	3,900	62,935	54,522	0.00%
CNET NETWORKS INC	6,700	60,198	53,466	0.00%
FAMILY DOLLAR STORES INC	2,100	51,693	51,303	0.00%
SARA LEE CORP	3,100	49,887	49,662	0.00%
POTLATCH CORP	1,300	48,796	49,075	0.00%
AMERICAN POWER CONVERSION CORP	2,500	48,810	48,725	0.00%
HEALTH MANGEMENT ASSOC	2,400	49,027	47,304	0.00%
STANLEY WORKS	1,000	48,050	47,220	0.00%
APARTMENT INVT + MANAGEMENT CO	900	39,315	39,105	0.00%
TYSON FOODS INC	2,600	41,808	38,636	0.00%
JANUS CAP GROUP INC	2,100	37,334	37,590	0.00%
INVESTORS FINANCIAL SERVICES CORP	800	36,111	35,920	0.00%
MBIA INC	600	34,060	35,130	0.00%
UNITED STS STL CORP	500	34,770	35,060	0.00%
SEPRACOR INC	600	30,675	34,284	0.00%
EMBARQ CORP	800	32,600	32,792	0.00%
NOBLE CORPORATION	400	27,137	29,768	0.00%
VORNADO RLTY TR	300	27,457	29,265	0.00%

Security Name	Shares	Carrying Value	Fair Value	%
NOVELLUS SYS INC	1,100	25,375	27,170	0.00%
CONAGRA INC	1,200	26,424	26,532	0.00%
ALTERA CORP	1,500	28,543	26,325	0.00%
LIMITED BRANDS INC	1,000	25,408	25,590	0.00%
TERADYNE INC	1,700	25,467	23,681	0.00%
ADC TELECOMMUNICATIONS INC	1,300	29,125	21,918	0.00%
MCCLATCHY CO	461	20,431	18,480	0.00%
XEROX CORP	1,200	16,132	16,692	0.00%
DOMESTIC EQUITY SECURITIES	**32,204,392**	**1,136,608,043**	**1,302,172,583**	**41.30%**
STATE STREET STIF	4,211,051	4,211,051	4,211,051	0.13%
STATE STREET STIF	287,662	287,662	287,662	0.01%
STATE STREET STIF	521,743	521,743	521,743	0.02%
T ROWE PRICE RES INV FUND	400,622	400,622	400,622	0.01%
CASH EQUIVALENTS	**5,421,077**	**5,421,077**	**5,421,077**	**0.17%**
TOTAL SEPARATE DOMESTIC ACCOUNTS	**37,625,469**	**1,142,029,120**	**1,307,593,660**	**41.48%**
GOLDMAN SACHS	9,330,103	125,956,387	124,463,571	3.95%
GOLDMAN SACHS LARGE CAP ENHANCED INDEX	**9,330,103**	**125,956,387**	**124,463,571**	**3.95%**
WESTERN ASSET MANAGEMENT CO (WAMCO)	8,976,856	126,937,301	125,424,632	3.98%
WAMCO LARGE CAP ENHANCED INDEX PLUS	**8,976,856**	**126,937,301**	**125,424,632**	**3.98%**
BGI S&P 500 EQUITY INDEX FUND A	3,340,346	995,420,724	1,178,260,317	37.37%
BGI CASH	1	1	1	0.00%
BGI S&P 500 PASSIVE EQUITY INDEX FUND	**3,340,347**	**995,420,725**	**1,178,260,318**	**37.37%**
DIMENSIONAL FUND ADVISORS INC	199,064	133,993,753	213,902,449	6.78%
DFA SMALL CAP SUBTRUST	**199,064**	**133,993,753**	**213,902,449**	**6.78%**
BGI S&P 400 MIDCAP EQUITY INDEX FUND	9,982,317	165,000,000	191,367,605	6.07%
BGI S&P 400 MIDCAP PASSIVE EQUITY INDEX	**9,982,317**	**165,000,000**	**191,367,605**	**6.07%**
STATE STREET SPIFF	69,420	11,533,284	11,691,519	0.37%
EQUITY FUTURES	**69,420**	**11,533,284**	**11,691,519**	**0.37%**
Total MDEP	**69,523,576**	**2,700,870,570**	**3,152,703,754**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana International Equity Pool, as of June 30, 2006, and 2005, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana International Equity Pool, as of June 30, 2006, and 2005, and its changes in net asset value and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA INTERNATIONAL EQUITY POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2006 AND 2005

	2006	2005
Assets		
Cash at fair value (carrying value of $3,638,650 in 2006 and $1,996,217 in 2005) (Notes 2 and 4)	$ 3,654,878	$ 1,968,498
Security lending cash collateral (Notes 3 and 4)	31,330,825	34,537,173
Broker receivable for securities sold but not settled (Note 2)	1,337,238	735,494
Dividend and interest receivable	592,169	1,419,646
Investments managed at fair value (carrying value of $913,072,853 in 2006 and $840,131,984 in 2005) (Notes 2, 4 and 7)	1,241,048,341	993,518,620
Total assets	$ 1,277,963,451	$ 1,032,179,431
Liabilities		
Income due participants	$ 997,800	$ 1,459,877
Broker payable for securities purchased but not settled (Note 2)	1,768,392	837,394
Security lending obligations (Note 3)	31,330,825	34,537,173
Security lending expense payable	116,732	113,089
Unrealized foreign exchange market gain (loss)	4,965	(1,670,430)
Administrative fee payable	295,474	445,565
Total liabilities	34,514,188	35,722,668
Net asset value	$ 1,243,449,263	$ 996,456,763
Units Outstanding (Note 2)	8,194,363	8,192,033
Unit Value (Note 2)	$ 151.74	$ 121.64

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net asset value, beginning of year	$ 996,456,763	$ 857,914,811
Value of units purchased by participants (Note 2)	845,000	25,000,000
Value of units sold by participants	(355,150)	0
Changes in current value of investments managed	246,502,650	113,541,952
Net asset value, end of year	$ 1,243,449,263	$ 996,456,763

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Investment income (Note 2)	$ 11,920,667	$ 11,001,773
Security lending income	1,371,073	1,317,472
Security lending expense	(1,278,676)	(1,106,889)
Administrative expenses (Note 2)	(2,366,359)	(2,641,330)
Income due participants, beginning of year	1,459,877	926,817
Income available for distribution	11,106,582	9,497,843
Distribution (Note 2)	10,108,782	8,037,966
Income due participants, end of year	$ 997,800	$ 1,459,877

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA INTERNATIONAL EQUITY POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 and 2005

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. The Montana International Equity Pool (MTIP) was approved by the Board in June 1996 and created in January 1997 with the nine pension funds as participants. MTIP provides the participants an opportunity to invest in the international equity market via a diversified pool that includes several different investment managers.

There are currently six separate managers investing funds within the MTIP. The date each manager was first funded, the fair value of each cash and equity portfolio as of June 30, 2006, and the percent of the MTIP total is shown in the table below:

Manager	Funding Date		Fair Value	% of Total
Schroder Investment Management	January 1997	$	139,585,656	11.21%
Barclays Global Investors (BGI) Equity Index Fund Europe	May 2003		768,768,601	61.76%
Barclays Global Investors (BGI) Passive Pacific Index Strategy	August 2003		65,943,278	5.30%
Nomura Asset Management	December 2003		146,838,819	11.80%
Dimensional Fund Advisors (DFA) International Small Co.	October 2004		93,071,030	7.48%
State Street EAFE ISPIFF (MTIP)	November 2005		30,495,835	2.45%
Total MTIP		$	1,244,703,219	100.00%

Schroders, Nomura, and the Barclays Pacific Index are authorized to invest these 12 Pacific Basin countries:

Pacific Basin Countries

Australia	Indonesia	Malaysia	Singapore
China	Japan	New Zealand	Taiwan
Hong Kong	Korea	Philippines	Thailand

The Barclays Europe Index Fund may invest in these 16 European countries:

European Countries

Austria	France	Italy	Spain
Belgium	Germany	Netherlands	Sweden
Denmark	Greece	Norway	Switzerland
Finland	Ireland	Portugal	United Kingdom

The DFA International Small Company Portfolio invests in the European countries detailed above and the Pacific Basin countries of Australia, Hong Kong, Japan, New Zealand and Singapore.

In December 2005, the Board terminated Pyrford International, the European external manager. The Board transferred 1,252,186 Pyrford International units held by MTIP at a gain of $39.5 million to the BGI Restructure account. This transaction involved the exchange of over 12 million shares in 46 positions held by Pyrford to the restructure account. Closure of the BGI Restructure account to the BGI MSCI Europe Index Fund resulted in additional gains of $1.5 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MTIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MTIP portfolios for fiscal years 2006 and 2005 includes equity investments in six funds that invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, convertible securities, American Depositary Receipts (ADR's), Global Depositary Receipts (GDR's), and other global securities, as appropriate.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Preferred stock pays a stipulated dividend and has a claim prior to that of common stock upon the earnings of a corporation. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. ADR's are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. GDR's are receipts issued by non-US bank depositaries, which represent shares of a foreign stock or bonds.

In November 2005, the Board approved the securitization of MTIP cash by investing in an international equity derivative, the State Street EAFE (Europe, Asia, Far East) International Stock Performance Index Futures Fund (ISPIFF). MTIP cash was previously invested in the domestic SPIFF.

Broker Receivable/Payable

MTIP security transactions are recorded as of the trade date rather than settlement date. Because of this generally accepted practice, the MTIP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Valuation and Foreign Currency

Investments are presented in the statement of Net Asset Value at current U.S .dollar value. The MTIP's fair value is derived from the Net Asset Value per Share, as separately calculated, for three funds - Pyrford International through November 2005, Schroder Investment Management NA, and Nomura Asset Management U.S.A, Inc. Each fund's Net Asset Value per Share represents the per unit ownership of the fund's Net Assets. The Net Assets are the excess of the valued securities, cash, receivables and other assets over the fund's liabilities. Each fund's Net Assets are reported at current U.S. dollar value after conversion, by the custodial bank, State Street Bank from the foreign currency amounts. The MTIP's fair value also includes the per share fair value of the BGI MSCI Europe Index Fund, the BGI All Country Pacific Index Strategy Fund, DFA International Small Company Portfolio and the State Street Bank ISPIFF account.

State Street Bank, as custodian, is responsible for reporting the foreign currency transactions in both the local and base or functional (U.S. dollar) currency. The three funds' cash, receivables, fair value of investment securities, other assets and liabilities are translated into U.S. dollars at the Interactive Data Control (IDC) 11:00 a.m. Eastern Standard Time (EST) exchange rate as of June 30. Purchases and sales of investment securities, income and expenses are converted into U.S. dollars using the Reuters noon EST exchange rate on the transaction date.

Currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

Fair values for the funds holding the publicly traded securities are determined by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank, their primary pricing service, IDC, Barclays Global Investors and Dimensional Fund Advisors. Equity investments, traded on a national security exchange, are stated at the last reported sales price on valuation day, while equity securities traded in the over-the-counter market are stated at the last quoted bid price.

Participant Units

The Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds sold units in the Short Term Investment Pool at the start up date and were issued units in MTIP at an initial unit value of $100. Unit values

thereafter are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Based on the investment officers' decision, participants may then buy or sell units on the first business day of each month. All participant buys or sells occur after distribution of accumulated income.

Investment Income and Distribution

Investment Income represents the monthly income distributions to the MTIP from the investment manager funds. The funds' income distributions include dividends accrued as of the ex-dividend date, interest, tax refunds and securities lending income, and related income currency gains/losses. Income currency gains/losses result from the difference between the amount of dividend, interest and foreign withholding taxes accrued for the fund in US dollars and the amount received or paid in equivalent US dollars.

Realized gains/losses from the sale of securities and related foreign exchange transactions are retained by the MTIP. Realized foreign exchange gains/losses arise from sales and maturities of portfolio securities, sales of foreign currencies, and currency gains/losses realized between the trade and settlement dates.

The fiscal year 2006 administrative expense of $2,366,359 represents $1,843,956 in quarterly fees accrued and paid to the external managers per their contracts and $522,403 in monthly charges accrued and paid to the Board of Investments.

The fiscal year 2005 administrative expense of $2,641,330 represents $2,126,429 in quarterly fees accrued and paid to the external managers per their contracts and $514,901 in monthly charges accrued and paid to the Board of Investments.

As described above, the Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MTIP based on the Board's expenses applicable to MTIP. The MTIP income available for distribution is distributed at least monthly to the retirement fund participants, net of external manager fees and administrative expenses, on the first business day of the following month.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 105 percent of the fair value of the loaned securities and maintain collateral equal to 105 percent of the fair value of the loaned securities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar and foreign currency cash, U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

The carrying amount and fair value of the underlying securities on loan for MTIP are detailed, by external investment manager, in the following table:

Carrying Amount and Fair Value of Securities on Loan

External Investment Manager	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value
Schroder Investment Mgmt.	$ 10,549,986	$ 12,246,945	$ 6,217,820	$ 7,804,614
Pyford International	0	0	8,367,610	11,720,776
Nomura Asset Management U.S.A., Inc	14,863,093	17,883,235	11,360,634	14,147,954
Total Investments on Loan	$ 25,413,079	$ 30,130,180	$ 25,946,064	$ 33,673,344
Securities Lending Collateral Investment Pool	$ 31,330,825	$ 31,330,825	34,537,173	$ 34,537,173

As of June 30, 2006, the collateral provided for the securities on loan totaled $31,330,825 in cash and $148,092 in securities collateral. As of June 30, 2005, the collateral provided for the securities on loan totaled $34,537,173 in cash and $779,936 in securities collateral.

4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all the MTIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The BGI MSCI Europe and Pacific Index and the DFA Small Company Portfolio are registered in the name of the Montana Board of Investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The U.S. dollar balances of the MTIP cash and investments are disclosed by currency and investment type in the following table and Note 7 - Year End Portfolio for 2006.

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MTIP Cash by Currency

Cash	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value
Australian Dollar	$ 66,735	$ 67,808	$ 132,456	$ 129,655
Hong Kong Dollar	699,971	699,204	124,923	124,949
France Euro	0	0	54	54
Japanese Yen	1,304,411	1,317,040	1,458,770	1,437,714
South Korean Won	23,893	24,146	4,185	4,085
Malaysian Ringgit	8,722	8,722	7,189	7,189
New Zealand Dollar	0	0	69,938	67,755
Philippine Peso	2,493	2,509	2,728	2,664
Singapore Dollar	1,364,829	1,367,218	1,233	1,219
New Taiwan Dollar	167,596	168,231	194,741	193,214
Total Cash	$ 3,638,650	$ 3,654,878	$ 1,996,217	$ 1,968,498

MTIP Investment by Security Type

Security Investment Type	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value
BGI MSCI Europe Index	$ 546,725,220	$ 768,768,601	$ 384,025,081	$ 466,246,669
BGI MSCI Pacific Index	40,005,323	65,943,278	40,005,322	50,628,249
BGI Cash and Money Market	1	1	1	1
DFA International Small Company	78,148,695	93,071,030	75,484,090	76,554,040
State Street ISPIFF/SPIFF	28,001,021	30,495,834	2,123,299	2,111,305
Schroder Investment Management	114,423,195	139,113,092	120,403,317	137,133,726
Pyford International	0	0	124,335,445	149,790,197
Nomura Asset Management U.S.A.	105,769,398	143,656,505	93,755,428	111,054,432
Total Investments	$ 913,072,853	$ 1,241,048,341	$ 840,131,984	$ 993,518,620
Securities Lending Collateral Investment Pool	31,330,825	31,330,825	34,537,173	34,537,173

The MTIP, through the above funds, has significant investments in 11 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the above funds in which MTIP is invested.

5. MTIP POOL DIVERSIFICATION

On April 26, 2006, the Board approved a staff recommendation to diversify the Board's international equity exposure. The recommendation addresses an asset allocation policy change within the MTIP to accommodate a new structure. The pool restructuring involves the September 18, 2006 termination of Schroders and downsizing the other active Pacific region manager, Nomura. The BGI Passive Pacific Index Strategy fund will be eliminated. Exposure to the BGI Europe Equity Index fund and DFA International Small Company portfolio will also be reduced. These actions will result in funding nine new external managers in early October 2006. The new international external managers are listed as follows:

Acadian Asset Management
Alliance/Bernstein
AXA Rosenberg Investment Management
Barclays Global Investors
Batterymarch Financial Management
Hansberger Global Investors
Julias Baer Investment Management
Martin Currie
Principal Global Investors

These managers were selected based on equity management styles of core, value and growth strategies. All non-U.S. countries will be represented in a broad international framework in this structure change. In April 2006, the Board approved the MSCI All Country World Index ex-US as the new benchmark for the international equity pool once pool restructure is complete.

6. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf. While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT down load function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

7. YEAR END PORTFOLIO

The combined MTIP investment portfolios for the six funds, as of June 30, 2006 are listed below by currency. The percent is based on the total fair value of each security/country to the combined total portfolio fair value.

Country	Security Name	Shares	Carrying Value	Fair Value	%
AUSTRALIAN DOLLAR	ALUMINA LIMITED	199,874	889,563	1,001,406	0.08%
AUSTRALIAN DOLLAR	AUSTRALIA + NEW ZEALAND BANK	160,733	2,350,379	3,172,295	0.26%
AUSTRALIAN DOLLAR	AUSTRALIAN STOCK EXCHANGE	16,000	391,488	386,920	0.03%
AUSTRALIAN DOLLAR	BHP BILLITON LTD	217,010	1,261,304	4,671,194	0.38%
AUSTRALIAN DOLLAR	BLUESCOPE STEEL LTD	37,000	197,400	218,333	0.02%
AUSTRALIAN DOLLAR	BRADKEN LTD	34,729	67,415	134,044	0.01%
AUSTRALIAN DOLLAR	BRAMBLES INDUSTRIES LTD	173,470	1,024,717	1,416,339	0.11%
AUSTRALIAN DOLLAR	COATES HIRE LTD	70,908	270,333	336,315	0.03%
AUSTRALIAN DOLLAR	COMMONWEALTH BANK OF AUSTRALIA	38,300	1,063,890	1,262,495	0.10%
AUSTRALIAN DOLLAR	FOSTERS GROUP	339,300	1,235,064	1,377,594	0.11%
AUSTRALIAN DOLLAR	HERALD RESOURCES	274,000	256,571	262,356	0.02%
AUSTRALIAN DOLLAR	INSURANCE AUSTRALIA GROUP	156,252	557,475	620,483	0.05%
AUSTRALIAN DOLLAR	LEND LEASE CORP	133,141	1,238,387	1,382,546	0.11%
AUSTRALIAN DOLLAR	MACQUARIE INFRASTRUCTURE GROUP	304,069	808,447	758,336	0.06%
AUSTRALIAN DOLLAR	NATIONAL AUSTRALIA BANK	74,049	1,555,913	1,932,494	0.16%
AUSTRALIAN DOLLAR	ORIGIN ENERGY	90,843	516,507	496,272	0.04%
AUSTRALIAN DOLLAR	PUBLISHING + BROADCASTING LTD	40,173	488,837	542,993	0.04%
AUSTRALIAN DOLLAR	QBE INSURANCE GROUP	58,000	735,684	882,535	0.07%
AUSTRALIAN DOLLAR	RINKER GROUP	37,455	167,240	455,658	0.04%
AUSTRALIAN DOLLAR	RIO TINTO LIMITED	43,728	1,085,582	2,525,163	0.20%
AUSTRALIAN DOLLAR	SONIC HEALTHCARE LTD	50,500	461,412	532,267	0.04%
AUSTRALIAN DOLLAR	TELSTRA CORP	135,394	436,504	369,826	0.03%
AUSTRALIAN DOLLAR	WESFARMERS	49,020	1,322,996	1,285,485	0.10%
AUSTRALIAN DOLLAR	WESTFIELD GROUP	77,841	869,351	1,001,284	0.08%
AUSTRALIAN DOLLAR	WESTPAC BANKING CORP	258,942	2,983,534	4,474,409	0.36%
AUSTRALIAN DOLLAR	WOODSIDE PETROLEUM	15,866	157,491	518,168	0.04%
AUSTRALIAN DOLLAR	WOOLWORTHS LTD	170,943	1,974,976	2,556,681	0.21%
AUSTRALIAN DOLLAR	**27 ISSUE(S)**	**3,257,540**	**24,368,460**	**34,573,892**	**2.79%**
HONG KONG DOLLAR	AGILE PROPERTY HOLDING	1,279,164	700,262	765,819	0.06%
HONG KONG DOLLAR	BANK OF CHINA LTD	517,000	215,786	234,637	0.02%
HONG KONG DOLLAR	BOC HONG KONG HOLDINGS LTD	286,000	573,629	559,701	0.05%
HONG KONG DOLLAR	CHEUNG KONG HOLDINGS	278,000	2,591,522	3,011,935	0.24%
HONG KONG DOLLAR	CHINA COSCO HOLDINGS	870,500	426,281	448,307	0.04%
HONG KONG DOLLAR	CHINA LIFE INSURANCE	370,000	248,636	583,559	0.05%

Country	Security Name	Shares	Carrying Value	Fair Value	%
HONG KONG DOLLAR	CHINA MOBILE LTD	230,000	823,864	1,314,793	0.11%
HONG KONG DOLLAR	CHINA OILFIELD SERVICE	312,000	148,693	158,671	0.01%
HONG KONG DOLLAR	CHINA OVERSEAS - WARRANTS	52,500	0	1,521	0.00%
HONG KONG DOLLAR	CHINA OVERSEAS LAND	420,000	86,044	255,504	0.02%
HONG KONG DOLLAR	CHINA PETROLIUM + CHEMICAL	2,174,000	914,941	1,245,565	0.10%
HONG KONG DOLLAR	CHINA RESOURCES EN	378,000	683,732	771,379	0.06%
HONG KONG DOLLAR	CLP HOLDINGS	41,736	193,039	244,226	0.02%
HONG KONG DOLLAR	CNOOC LTD	2,270,000	1,713,059	1,812,025	0.15%
HONG KONG DOLLAR	FU JI FOOD + CATER	384,000	690,592	632,831	0.05%
HONG KONG DOLLAR	GIORDANO INTERNATIONAL LTD	1,150,000	604,479	544,129	0.04%
HONG KONG DOLLAR	GOME ELECTRICAL AP	797,000	545,554	672,119	0.05%
HONG KONG DOLLAR	HANG LUNG PROP	306,000	487,243	547,625	0.04%
HONG KONG DOLLAR	HOPEWELL HIGHWAY	490,000	326,596	369,061	0.03%
HONG KONG DOLLAR	HSBC HOLDINGS	111,600	1,649,337	1,955,550	0.16%
HONG KONG DOLLAR	LI + FUNG	242,600	390,748	490,385	0.04%
HONG KONG DOLLAR	MTR CORP	113,243	176,005	273,375	0.02%
HONG KONG DOLLAR	PETROCHINA CO	500,000	475,808	534,312	0.04%
HONG KONG DOLLAR	PING AN INSURANCE	285,000	404,128	864,137	0.07%
HONG KONG DOLLAR	SUN HUNG KAI PROPS	135,520	1,288,837	1,381,896	0.11%
HONG KONG DOLLAR	SWIRE PACIFIC	174,500	1,226,728	1,800,718	0.15%
HONG KONG DOLLAR	WHARF HOLDINGS	240,000	821,760	852,839	0.07%
HONG KONG DOLLAR	ZIJIN MINING GROUP CO LTD	1,178,000	133,659	587,711	0.05%
HONG KONG DOLLAR	**28 ISSUE(S)**	**15,586,363**	**18,540,963**	**22,914,329**	**1.85%**
INDONESIAN RUPIAH	INDOSAT	545,000	308,272	251,525	0.02%
INDONESIAN RUPIAH	MEDCO ENERGI INTL	1,585,000	515,049	637,388	0.05%
INDONESIAN RUPIAH	**2 ISSUE(S)**	**2,130,000**	**823,321**	**888,913**	**0.07%**
JAPANESE YEN	AISIN SEIKI CO	53,700	828,888	1,594,516	0.13%
JAPANESE YEN	AMADA CO	64,000	387,759	670,713	0.05%
JAPANESE YEN	ASAHI GLASS CO	145,000	1,666,797	1,837,431	0.15%
JAPANESE YEN	ASAHI KASEI CORP	256,000	1,249,414	1,670,076	0.13%
JAPANESE YEN	ASTELLAS PHARMACEUTICAL INC	100,900	3,441,209	3,700,974	0.30%
JAPANESE YEN	BANK OF YOKOHAMA	74,000	319,433	571,940	0.05%
JAPANESE YEN	BENESSE CORP	14,700	514,584	507,096	0.04%
JAPANESE YEN	BRIDGESTONE CORP	148,900	2,183,993	2,867,338	0.23%
JAPANESE YEN	CANON INC	31,800	1,059,349	1,557,993	0.13%
JAPANESE YEN	CANON MARKETING JA	24,000	186,740	494,651	0.04%
JAPANESE YEN	CENTRAL GLASS CO	62,000	364,560	368,735	0.03%
JAPANESE YEN	CENTRAL JAPAN RAILWAY	152	1,203,131	1,513,296	0.12%
JAPANESE YEN	CHIYODA CO	5,800	155,615	127,645	0.01%
JAPANESE YEN	CREDIT SAISON CO	31,900	672,357	1,509,960	0.12%
JAPANESE YEN	DAICEL CHEMICAL INDUSTRIES	50,000	336,063	408,279	0.03%
JAPANESE YEN	DAIDO STEEL CO	146,000	239,736	1,144,998	0.09%
JAPANESE YEN	DAIICHI SANKYO	27,500	500,155	756,517	0.06%
JAPANESE YEN	DAIKIN INDUSTRIES	77,900	1,799,642	2,700,869	0.22%
JAPANESE YEN	DAINIPPON SCREEN	44,000	374,321	402,707	0.03%
JAPANESE YEN	DAITO TRUST CONSTRUCTION	6,700	323,005	370,971	0.03%
JAPANESE YEN	DENKI KAGAKU KOGYO	220,000	656,793	914,545	0.07%
JAPANESE YEN	DOWA MINING CO	182,000	858,252	1,608,524	0.13%
JAPANESE YEN	EAST JAPAN RAILWAY	508	2,474,690	3,771,014	0.30%
JAPANESE YEN	ELPIDA MEMORY INC	26,900	828,270	1,010,174	0.08%
JAPANESE YEN	FAITH INC	452	179,182	122,370	0.01%
JAPANESE YEN	FANUC	8,300	522,710	745,155	0.06%
JAPANESE YEN	FUJI SEAL INTERNATIONAL INC	14,200	445,985	373,276	0.03%
JAPANESE YEN	FUJIKURA	78,000	350,532	860,347	0.07%
JAPANESE YEN	FUJITSU	443,000	2,650,945	3,431,649	0.28%
JAPANESE YEN	FUNAI ELECTRIC CO	17,200	1,849,551	1,667,351	0.13%
JAPANESE YEN	GLORY	7,000	76,276	134,492	0.01%
JAPANESE YEN	HI LEX CORPORATION	16,000	142,971	273,176	0.02%
JAPANESE YEN	HIROSHIMA BANK	50,000	286,103	304,354	0.02%
JAPANESE YEN	HITACHI CAP CORP	11,600	228,417	202,611	0.02%
JAPANESE YEN	HITACHI CHEMICAL	27,100	571,386	710,013	0.06%
JAPANESE YEN	HITACHI HIGH TECH	12,400	223,864	376,857	0.03%

Country	Security Name	Shares	Carrying Value	Fair Value	%
JAPANESE YEN	HITACHI INFO SYSTEM	17,800	404,733	424,383	0.03%
JAPANESE YEN	HITACHI METALS	51,000	251,142	501,070	0.04%
JAPANESE YEN	HITACHI TRANSPORT SYSTEM	93,000	523,195	934,833	0.08%
JAPANESE YEN	HONDA MOTOR CO	54,200	1,077,334	1,718,231	0.14%
JAPANESE YEN	IBIDEN CO	7,400	347,415	355,443	0.03%
JAPANESE YEN	ITOCHU CORP	229,000	565,836	2,009,912	0.16%
JAPANESE YEN	ITOCHU TECHNO SCIENCE	5,500	149,631	253,133	0.02%
JAPANESE YEN	JAPAN AIRPORT TERMINAL	59,300	455,658	644,762	0.05%
JAPANESE YEN	JFE HOLDING INC	86,800	1,595,982	3,676,521	0.30%
JAPANESE YEN	JS GROUP CORP	58,200	958,606	1,222,401	0.10%
JAPANESE YEN	KAJIMA CORP	111,000	509,318	508,930	0.04%
JAPANESE YEN	KAKEN PHARMACEUTICAL	9,000	61,290	67,517	0.01%
JAPANESE YEN	KAMIGUMI CO	82,000	570,356	622,313	0.05%
JAPANESE YEN	KANEKA CORP	77,000	714,667	699,358	0.06%
JAPANESE YEN	KDDI CORP	357	1,864,604	2,191,791	0.18%
JAPANESE YEN	KEIHIN CORP	25,400	241,736	544,579	0.04%
JAPANESE YEN	KEYENCE CORP	4,800	1,100,433	1,224,890	0.10%
JAPANESE YEN	KOBAYASHI PHARMACEUTICAL	4,300	131,820	175,748	0.01%
JAPANESE YEN	KYOCERA CORP	15,400	1,042,450	1,191,599	0.10%
JAPANESE YEN	LEOPALACE21	19,000	425,628	655,430	0.05%
JAPANESE YEN	MABUCHI MOTOR CO	4,600	331,273	274,783	0.02%
JAPANESE YEN	MAKITA CORP	18,500	539,172	584,865	0.05%
JAPANESE YEN	MARUI CO	69,400	1,129,865	1,080,047	0.09%
JAPANESE YEN	MAZDA MOTOR CORP	88,000	535,190	551,033	0.04%
JAPANESE YEN	MISUMI GROUP INC	19,600	320,088	366,307	0.03%
JAPANESE YEN	MITSUBISHI ELECTRIC	169,000	602,948	1,353,417	0.11%
JAPANESE YEN	MITSUBISHI ESTATE	73,000	844,045	1,549,190	0.12%
JAPANESE YEN	MITSUBISHI UFJ FIN GROUP	583	5,952,079	8,146,369	0.66%
JAPANESE YEN	MITSUBISHI UFJ SECURITIES CO	62,000	908,344	799,197	0.06%
JAPANESE YEN	MITSUI + CO	182,000	1,097,943	2,568,552	0.21%
JAPANESE YEN	MITSUI FUDOSAN CO	17,000	149,745	368,936	0.03%
JAPANESE YEN	MITSUI MINING + SM	70,000	381,036	412,646	0.03%
JAPANESE YEN	MIZUHO FINANCIAL	90	722,368	761,626	0.06%
JAPANESE YEN	MODEC INC	8,600	234,360	192,271	0.02%
JAPANESE YEN	NAMCO BANDAI HOLDINGS	43,300	620,326	657,602	0.05%
JAPANESE YEN	NET ONE SYSTEMS CO	306	627,034	569,215	0.05%
JAPANESE YEN	NICHICON CORP	4,800	289,145	59,274	0.00%
JAPANESE YEN	NIDEC CORPORATION	15,300	1,170,963	1,095,673	0.09%
JAPANESE YEN	NIHON UNISYS	28,800	305,449	477,380	0.04%
JAPANESE YEN	NINTENDO CO	7,200	660,390	1,207,284	0.10%
JAPANESE YEN	NIPPON CHEMI CON	7,000	43,643	44,505	0.00%
JAPANESE YEN	NIPPON OIL CORP	104,000	519,677	759,303	0.06%
JAPANESE YEN	NIPPON PAPER GROUP INC	178	895,673	727,514	0.06%
JAPANESE YEN	NIPPON SUISAN	63,000	134,116	318,012	0.03%
JAPANESE YEN	NIPPON TEL+TEL	652	3,948,049	3,194,376	0.26%
JAPANESE YEN	NIPPON TV NETWORK	2,940	564,919	399,771	0.03%
JAPANESE YEN	NIPPON YUSEN KK	86,000	311,925	558,788	0.05%
JAPANESE YEN	NISHIMATSUYA CHAIN	10,700	132,367	206,982	0.02%
JAPANESE YEN	NISSAN MOTOR CO	533,000	5,802,837	5,818,523	0.47%
JAPANESE YEN	NISSIN CO	403,800	124,229	282,119	0.02%
JAPANESE YEN	NITTO DENKO CORP	18,800	1,026,688	1,338,108	0.11%
JAPANESE YEN	NOMURA HOLDINGS	86,000	1,188,208	1,611,021	0.13%
JAPANESE YEN	NTN CORP	50,000	295,790	395,179	0.03%
JAPANESE YEN	NTT DOCOMO	440	1,086,580	645,561	0.05%
JAPANESE YEN	OMRON CORP	85,000	1,635,553	2,163,879	0.17%
JAPANESE YEN	ONO PHARMACEUTICAL	7,600	309,178	369,696	0.03%
JAPANESE YEN	ORIX CORP	6,960	422,323	1,698,895	0.14%
JAPANESE YEN	OSG CORP	16,000	207,388	269,263	0.02%
JAPANESE YEN	PARIS MIKI INC	17,200	318,847	358,255	0.03%
JAPANESE YEN	PLENUS CO	6,700	214,947	228,200	0.02%
JAPANESE YEN	PROMISE CO	25,000	1,354,407	1,447,535	0.12%
JAPANESE YEN	RICOH CO	115,000	2,027,331	2,254,705	0.18%

Country	Security Name	Shares	Carrying Value	Fair Value	%
JAPANESE YEN	ROHM CO	44,600	5,153,423	3,984,612	0.32%
JAPANESE YEN	SANKEN ELECTRIC CO	39,000	351,753	495,908	0.04%
JAPANESE YEN	SANKYO TATETAMA HO	126,000	384,234	277,298	0.02%
JAPANESE YEN	SANYO SHOKAI	37,000	243,552	268,198	0.02%
JAPANESE YEN	SEIKO CORPORATION	19,000	90,125	179,538	0.01%
JAPANESE YEN	SEKISUI CHEMICAL	140,000	944,002	1,207,982	0.10%
JAPANESE YEN	SEVEN + I HOLDINGS	92,500	2,875,412	3,045,500	0.25%
JAPANESE YEN	SHIMACHU CO	13,200	310,969	344,684	0.03%
JAPANESE YEN	SHIMADZU CORP	139,000	830,591	984,490	0.08%
JAPANESE YEN	SHIMAMURA CO	4,700	504,669	514,720	0.04%
JAPANESE YEN	SHIN ETSU CHEM CO	20,200	1,154,028	1,097,280	0.09%
JAPANESE YEN	SHIONOGI + CO	53,000	735,946	944,238	0.08%
JAPANESE YEN	SHOWA DENKO KK	338,000	697,275	1,502,485	0.12%
JAPANESE YEN	SOMPO JAPAN INSURANCE	135,000	1,105,386	1,886,381	0.15%
JAPANESE YEN	STANLEY ELECTRIC	56,900	933,165	1,172,735	0.09%
JAPANESE YEN	SUMITOMO ELECTRIC INDUSTRIES	94,000	783,937	1,375,870	0.11%
JAPANESE YEN	SUMITOMO HEAVY INDUSTRIES	73,000	627,654	674,503	0.05%
JAPANESE YEN	SUMITOMO MITSUI GROUP	756	5,692,600	7,988,821	0.64%
JAPANESE YEN	SUMITOMO RUBBER	57,800	751,030	635,520	0.05%
JAPANESE YEN	SUMITOMO TRUST+BANKING	172,000	1,012,641	1,877,647	0.15%
JAPANESE YEN	T+D HOLDINGS INC	33,200	1,656,594	2,681,979	0.22%
JAPANESE YEN	TAKEDA PHARMACEUTICAL CO LTD	46,600	1,844,578	2,897,620	0.23%
JAPANESE YEN	TAKEFUJI CORP	12,690	901,142	755,826	0.06%
JAPANESE YEN	TDK CORP	30,500	2,132,541	2,317,366	0.19%
JAPANESE YEN	THK CO	50,500	927,028	1,503,908	0.12%
JAPANESE YEN	TIS INC	16,000	450,850	447,142	0.04%
JAPANESE YEN	TOKAI RUBBER INDUSTRIES	9,400	123,378	143,662	0.01%
JAPANESE YEN	TOKYO GAS CO	92,000	386,159	433,064	0.03%
JAPANESE YEN	TOKYO SEIMITSU CO	21,900	657,601	1,136,073	0.09%
JAPANESE YEN	TOKYO STEEL MFG	19,100	304,298	417,846	0.03%
JAPANESE YEN	TOSHIBA CORP	219,000	1,190,055	1,428,697	0.12%
JAPANESE YEN	TOSOH CORP	108,000	554,243	430,095	0.03%
JAPANESE YEN	TOYO SUISAN KAISHA	18,000	185,906	281,699	0.02%
JAPANESE YEN	TOYODA GOSEI	10,400	184,628	208,445	0.02%
JAPANESE YEN	TOYOTA MOTOR CORP	108,200	3,051,587	5,660,172	0.46%
JAPANESE YEN	ULVACINC	7,200	195,835	245,858	0.02%
JAPANESE YEN	UNITED ARROWS LTD	18,000	190,338	355,268	0.03%
JAPANESE YEN	USHIO INC	50,100	922,769	1,056,648	0.09%
JAPANESE YEN	USS	8,530	578,211	563,179	0.05%
JAPANESE YEN	VICTOR CO OF JAPAN	122,000	1,027,782	617,964	0.05%
JAPANESE YEN	YAMAHA CORP	80,200	1,350,713	1,505,873	0.12%
JAPANESE YEN	YAMATO HOLDINGS CO LTD	13,000	228,329	230,470	0.02%
JAPANESE YEN	YOKOGAWA ELECTRIC	42,100	582,582	599,669	0.05%
JAPANESE YEN	YORK BENIMARU CO	14,000	322,948	399,808	0.03%
JAPANESE YEN	**142 ISSUE(S)**	**8,824,394**	**128,263,438**	**165,848,053**	**13.36%**
MALAYSIAN RINGGIT	ASTRO ALL ASIA NET	271,100	382,950	333,480	0.03%
MALAYSIAN RINGGIT	BUMIPUTRA COMMERCE HOLDINGS BH	376,600	561,925	609,816	0.05%
MALAYSIAN RINGGIT	GENTING BERHAD	77,100	357,676	497,284	0.04%
MALAYSIAN RINGGIT	HIGHLANDS+LOWLANDS	120,000	129,647	135,855	0.01%
MALAYSIAN RINGGIT	LAFARGE MALAYAN CEMENT BHD	1,200,000	230,556	241,666	0.02%
MALAYSIAN RINGGIT	MALAYAN BANK BHD	93,200	236,887	271,395	0.02%
MALAYSIAN RINGGIT	MISC BHD	135,900	256,528	284,782	0.02%
MALAYSIAN RINGGIT	RHB CAPITAL BHD	270,000	180,135	202,068	0.02%
MALAYSIAN RINGGIT	SCOMI GROUP BERHAD	587,000	176,520	172,530	0.01%
MALAYSIAN RINGGIT	SHELL REFINERY	92,300	266,052	253,703	0.02%
MALAYSIAN RINGGIT	UMW HOLDINGS BERHAD	100,000	207,191	205,470	0.02%
MALAYSIAN RINGGIT	**11 ISSUE(S)**	**3,323,200**	**2,986,066**	**3,208,048**	**0.26%**
NEW TAIWAN DOLLAR	ACER INC	27,000	300,700	237,600	0.02%
NEW TAIWAN DOLLAR	ACER INC	476,960	908,938	838,413	0.07%
NEW TAIWAN DOLLAR	ADVANTECH	82,559	176,463	236,688	0.02%
NEW TAIWAN DOLLAR	ASUSTEK COMPUTER	120,000	347,651	294,722	0.02%
NEW TAIWAN DOLLAR	AU OPTRONICS CORP	17,725	226,847	252,404	0.02%

Country	Security Name	Shares	Carrying Value	Fair Value	%
NEW TAIWAN DOLLAR	AU OPTRONICS CORP	289,120	398,116	408,186	0.03%
NEW TAIWAN DOLLAR	CATCHER TECHNOLOGY CO LTD	63,000	480,765	667,573	0.05%
NEW TAIWAN DOLLAR	CATHAY FINANCIAL	519,000	1,063,400	1,135,180	0.09%
NEW TAIWAN DOLLAR	CATHAY FINANCIAL HOLDING	35,080	576,014	754,220	0.06%
NEW TAIWAN DOLLAR	CHINA STEEL	26,735	326,566	529,353	0.04%
NEW TAIWAN DOLLAR	CHINA TRUST FINANCE	399,597	349,268	331,460	0.03%
NEW TAIWAN DOLLAR	DELTA ELECTRONICS	134,610	165,198	382,586	0.03%
NEW TAIWAN DOLLAR	FAR EASTONE TELECOMMUNICATIONS	40,941	723,001	693,950	0.06%
NEW TAIWAN DOLLAR	FORMOSA INTERNATIONAL HOTEL	70,000	173,310	180,139	0.01%
NEW TAIWAN DOLLAR	FORMOSA PLASTIC	295,500	429,044	448,232	0.04%
NEW TAIWAN DOLLAR	FUBON FINANCIAL HOLDING CO	22,275	209,135	194,906	0.02%
NEW TAIWAN DOLLAR	GIANT MANUFACTURIN	159,000	276,819	257,390	0.02%
NEW TAIWAN DOLLAR	HON HAI PRECISION	264,132	1,412,683	1,631,981	0.13%
NEW TAIWAN DOLLAR	HON HAI PRECISION INDUSTRIES	80,192	524,659	971,927	0.08%
NEW TAIWAN DOLLAR	JOHNSON HEALTH TEC	46,000	214,976	251,533	0.02%
NEW TAIWAN DOLLAR	MEDIATEK INC	54,000	559,250	500,471	0.04%
NEW TAIWAN DOLLAR	MERRY ELECTRONICS	50,723	118,223	154,506	0.01%
NEW TAIWAN DOLLAR	NAN YA PLASTIC	150,000	226,220	221,273	0.02%
NEW TAIWAN DOLLAR	TAIWAN SECOM CO	131,800	142,943	241,861	0.02%
NEW TAIWAN DOLLAR	TAIWAN SEMICON MAN	1,113,659	1,823,018	2,009,227	0.16%
NEW TAIWAN DOLLAR	TONG YANG INDUSTRY	1,075,000	1,279,236	1,012,913	0.08%
NEW TAIWAN DOLLAR	UNITED MICRO ELECTRIC	1,026,561	629,516	615,248	0.05%
NEW TAIWAN DOLLAR	**27 ISSUE(S)**	**6,771,169**	**14,061,960**	**15,453,944**	**1.25%**
NEW ZEALAND DOLLAR	TELECOM CORP OF NEW ZEALAND	167,008	676,552	411,237	0.03%
NEW ZEALAND DOLLAR	**1 ISSUE(S)**	**167,008**	**676,552**	**411,237**	**0.03%**
PHILIPPINE PESO	AYALA LAND INC	6,313,976	817,573	1,369,239	0.11%
PHILIPPINE PESO	BCO DE ORO UNIV BANK	270,000	163,562	157,835	0.01%
PHILIPPINE PESO	**2 ISSUE(S)**	**6,583,976**	**981,135**	**1,527,074**	**0.12%**
SINGAPORE DOLLAR	CAPITALAND	96,000	180,420	272,813	0.02%
SINGAPORE DOLLAR	CITY DEVELOPMENTS	79,000	341,448	466,467	0.04%
SINGAPORE DOLLAR	DBS GROUP HOLDINGS	104,266	853,053	1,191,800	0.10%
SINGAPORE DOLLAR	FRASER + NEAVE LTD	65,000	146,038	164,193	0.01%
SINGAPORE DOLLAR	JARDINE CYCLE + CARRIAGE LTD	106,000	755,208	669,403	0.05%
SINGAPORE DOLLAR	JARDINE MATHESON	62,800	1,126,033	1,105,280	0.09%
SINGAPORE DOLLAR	MOBILEONE	260,560	209,577	340,612	0.03%
SINGAPORE DOLLAR	OVERSEAS CHINESE BANK	69,200	217,811	288,424	0.02%
SINGAPORE DOLLAR	SEMBCORP INDUSTRIES	155,000	279,011	317,146	0.03%
SINGAPORE DOLLAR	SINGAPORE AIRLINES	20,000	136,923	160,404	0.01%
SINGAPORE DOLLAR	SINGAPORE PRESS HD	242,768	661,723	631,641	0.05%
SINGAPORE DOLLAR	SINGAPORE TECH ENG	120,000	144,839	219,009	0.02%
SINGAPORE DOLLAR	SINGAPORE TELECOMM	567,580	837,689	910,422	0.07%
SINGAPORE DOLLAR	TAN CHONG INTERNATIONAL	620,000	138,746	140,492	0.01%
SINGAPORE DOLLAR	UNITED OVERSEAS BANK	68,576	456,654	675,583	0.05%
SINGAPORE DOLLAR	UOL GROUP LTD	203,700	300,461	367,908	0.03%
SINGAPORE DOLLAR	**16 ISSUE(S)**	**2,840,450**	**6,785,635**	**7,921,597**	**0.64%**
SOUTH KOREAN WON	DACOM CORP	24,000	423,324	424,980	0.03%
SOUTH KOREAN WON	DAEWOO SECURITIES	25,000	288,716	384,717	0.03%
SOUTH KOREAN WON	DAEWOO SHIPBUILDING + MARINE	51,330	1,262,075	1,509,467	0.12%
SOUTH KOREAN WON	GS ENGINEERING	11,200	568,070	724,827	0.06%
SOUTH KOREAN WON	HANA FINANCIAL HOLDINGS	36,461	1,399,573	1,714,003	0.14%
SOUTH KOREAN WON	HITE BREWERY CO	14,847	1,866,683	1,485,091	0.12%
SOUTH KOREAN WON	HYUNDAI MIPO DOCK	3,870	361,376	387,510	0.03%
SOUTH KOREAN WON	HYUNDAI MOBIS	5,500	465,350	465,507	0.04%
SOUTH KOREAN WON	HYUNDAI MOTOR CO	20,159	1,477,099	1,712,585	0.14%
SOUTH KOREAN WON	KOOKMIN BANK	18,750	935,272	1,541,502	0.12%
SOUTH KOREAN WON	KT + G CORPORATION	6,862	116,880	400,690	0.03%
SOUTH KOREAN WON	LG ELECTRONICS INC	4,000	262,729	242,424	0.02%
SOUTH KOREAN WON	LG PHILIPS LCD CO LTD	76,175	1,580,004	1,380,291	0.11%
SOUTH KOREAN WON	POSCO	3,361	425,081	901,581	0.07%
SOUTH KOREAN WON	SAMSUNG ELECTRONIC	10,953	3,175,042	6,961,432	0.56%
SOUTH KOREAN WON	SAMSUNG FIRE + MAR	6,400	537,695	860,079	0.07%

Country	Security Name	Shares	Carrying Value	Fair Value	%
SOUTH KOREAN WON	SHINHAN FINANCIAL	15,216	311,162	713,689	0.06%
SOUTH KOREAN WON	SHINSEGAE CO LTD	2,489	770,051	1,246,140	0.10%
SOUTH KOREAN WON	WOONGJIN THINKBIG CO LTD	14,000	202,343	239,789	0.02%
SOUTH KOREAN WON	**19 ISSUE(S)**	**350,573**	**16,428,525**	**23,296,305**	**1.88%**
THAILAND BAHT	ADVANCED INFO SERV	372,600	959,715	878,774	0.07%
THAILAND BAHT	BANGKOK BANK	519,600	1,426,103	1,443,333	0.12%
THAILAND BAHT	KASIKORNBANK PCL	190,000	292,997	293,763	0.02%
THAILAND BAHT	PTT EXPLORTN + PRD	279,000	259,353	775,000	0.06%
THAILAND BAHT	SIAM CEMENT CO	161,300	952,022	972,196	0.08%
THAILAND BAHT	TISCO FINANCE THB10(NVDR)	359,200	232,176	208,969	0.02%
THAILAND BAHT	TRUE CORPORATION PUBLIC CO LTD	130,895	0	0	0.00%
THAILAND BAHT	**7 ISSUE(S)**	**2,012,595**	**4,122,367**	**4,572,035**	**0.37%**
US DOLLAR	BGI EQUITY INDEX FUND EUROPE	60,418,608	546,725,220	768,768,601	61.95%
US DOLLAR	BGI PACIFIC INDEX STRATEGY FUND	3,578,423	40,005,322	65,943,278	5.31%
US DOLLAR	DFA INTERNATIONAL SMALL CO	5,303,193	78,148,695	93,071,030	7.50%
US DOLLAR	BGI MONEY MARKET FUND	1	1	1	0.00%
US DOLLAR	**4 ISSUE(S)**	**69,300,224**	**664,879,239**	**927,782,910**	**74.76%**
EQUITY TOTAL	**286 ISSUE(S)**	**121,147,492**	**882,917,662**	**1,208,398,33**	**97.37%**
US DOLLAR	EAFE STOCK PERFORMANCE INDEX	1,218,712	28,001,021	30,495,834	2.46%
EQUITY FUTURES TOTAL	**1 ISSUE(S)**	**1,218,712**	**28,001,021**	**30,495,834**	**2.46%**
UNITED STATES	STATE STREET BANK + TRUST CO	2,154,170	2,154,170	2,154,170	0.17%
CASH TOTAL	**1 ISSUE(S)**	**2,154,170**	**2,154,170**	**2,154,170**	**0.17%**
Total MTIP	**288 ISSUE(S)**	**124,520,375**	**913,072,853**	**1,241,048,34**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Real Estate Pool, as of June 30, 2006, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal year then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Real Estate Pool, as of June 30, 2006, and its changes in net asset value and investment income and distribution for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA REAL ESTATE POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2006

		2006
Assets		
Cash	$	0
Investments managed at fair value (amortized cost of $30,159,689 in 2006) (Notes 2 and 4)		30,159,689
Total assets	$	30,159,689
Liabilities		
Income due participants (Note 2)		124,689
Total liabilities		124,689
Net asset value	$	30,035,000
Units Outstanding (Note 2)		300,350
Unit Value (Note 2)	$	100.00

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net asset value, beginning of year	$	0
Value of units purchased by participants		30,035,000
Value of units sold by participants		0
Changes in fair value of investments managed		0
Net asset value, end of year	$	30,035,000

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Interest income (Note 2)	$	125,023
Administrative expenses		(334)
Income due participants, beginning of year		0
Income available for distribution		124,689
Distribution		0
Income due participants, end of year (Note 2)	$	124,689

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA REAL ESTATE POOL - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana Real Estate Pool (MTRP pronounced "Mont Re") was approved by the Board on April 26, 2006, to permit the state's retirement systems to participate in a diversified real estate portfolio. Effective June 1, 2006, the nine retirement funds sold $30,035,000 of their Short Term Investment Pool (STIP) investment to fund the new Montana Real Estate Pool (MTRP).

The Board approved the original Montana Real Estate Pool (MTRP) May 1998, to allow retirement and endowment funds, per section 17-6-201, MCA, the opportunity to participate in the Real Estate Investment Trust (REIT) equity market via a diversified pool. The original pool was created on July 1, 1998 by a spin-off of the REIT stock investments held in the Montana Stock Pool (MTCP). The MTCP participants received shares and an investment basis in the MTRP. Upon completion of the transaction, each MTCP/MTRP participant retained the same number of shares and investment basis originally held in the MTCP less the sale of fractional shares.

On March 1, 2001, the Board approved liquidation of the MTRP and all REIT securities were sold. Proceeds from the sale of securities were invested in the Short Term Investment Pool (STIP). In May 2001, the STIP investment was liquidated and the related STIP earnings were distributed to the MTRP participants as of June 1, 2001. As of June 30, 2001, all accounts related to the Montana Real Estate Pool reported a zero balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MTRP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MTRP will invest in external real estate managers with both open-end and closed-end pooled funds. Open-ended commingled funds will provide timely access to existing large funds with diversified property types, diversified geographic exposure to larger properties, and reasonable liquidity. The closed-end commingled fund investments may be made to obtain exposure to value and opportunistic investments. Reasonable due diligence is completed prior to selecting either type of investment.

The MTRP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Investments are presented in the statement of Net Asset Value based on the fair value of the portfolio.

Participant Units
The nine pension funds sold STIP shares totaling $30,035,000 to fund the MTRP on June 1, 2006. Each pension fund participant was issued units in the new pool at an initial unit value of $100. Unit values are calculated on the close of the last business day of the month, and based on the portfolio fair value. Based on the investment officer's decision, participants may buy or sell units on the first business day of each month.

Security Lending

Given the characteristics of the MTRP portfolio, MTRP will not participate in security lending.

3. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. STIP, as an external investment pool, has not been rated by a Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSRO's include Standard and Poors, Moody's, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006, the MTRP investment in STIP was recorded in the name of the Montana Board of Investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2006, the MTRP's single investment is Montana's Short Term Investment Pool (STIP).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7-like pool". Because STIP operates as a 2a-7 like pool, this exclusion applies to STIP.

Specific Risk

Portfolio diversification of risk is achieved through multiple manager relationships and investments diversified by time, real estate type, real estate size, and geographical region. Real estate investments typically have a low correlation relative to other investment asset classes and contribute to the reduction of portfolio risk and the enhancement of expected returns on a total investment portfolio basis. Specific risks associated with MTRP are further described in the MTRP Investment Policy Statement.

4. REAL ESTATE MANAGER COMMITMENTS

The MTRP was created and funded on June 1, 2006 in anticipation of funding real estate manager capital calls prior to June 30, 2006. As of September 22, 2006 the Board has made commitments, but not yet funded, the following real estate managers:

Security Investment	Original Commitment Date		Original Commitment
AG Core Plus Realty Fund II	August 2006		20,000,000
Apollo Real Estate Finance Corp.	September 2006	$	10,000,000
ABR Chesapeake III	September 2006		20,000,000
TA Associates Realty Fund VIII	September 2006		20,000,000
Total MTRP Commitments		$	70,000,000

5. YEAREND PORTFOLIO

The June 30, 2006 MTRP portfolio is listed below.

Security Name	Coupon	Maturity	Shares	Book Value	Fair Value
SHORT TERM INVESTMENT POOL			30,159,689	30,159,689	30,159,689
Cash Equivalents			**30,159,689**	**30,159,689**	**30,159,689**
MTRP Total			**30,159,689**	**30,159,689**	**30,159,689**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Private Equity Pool, as of June 30, 2006, and 2005, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Private Equity Pool, as of June 30, 2006, and 2005, and its changes in net asset value and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA PRIVATE EQUITY POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2006 AND 2005

		2006		2005
Assets				
Cash	$	0	$	0
Dividend/interest receivable		0		28
Investments managed at fair value (carrying value of $353,158,397 in 2006 and $272,828,932 in 2005)(Notes 2 and 4)		400,727,301		297,638,172
Total assets	$	400,727,301	$	297,638,200
Liabilities				
Income due participants	$	344,674	$	209,681
Total liabilities		344,674		209,681
Net asset value	$	400,382,627	$	297,428,519
Units Outstanding (Note 2)		2,953,791		2,562,719
Unit Value (Note 2)	$	135.55	$	116.06

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net asset value, beginning of year	$	297,428,519	$	254,377,824
Value of units purchased by participants (Notes 1 and 2)		47,550,000		0
Value of units sold by participants		0		0
Changes in fair value of investments managed		55,404,108		43,050,695
Net asset value, end of year	$	400,382,627	$	297,428,519

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Net realized gains (Note 2)	$	2,000,000	$	0
Dividend/interest income		4,840,414		2,846,253
Administrative expenses (Note 2)		(4,566,936)		(3,734,605)
Other expenses (Note 2)		(402,453)		(67,925)
Income due participants, beginning of year		209,681		5,273,616
Income available for distribution		2,080,706		4,317,339
Distribution (Note 2)		1,736,032		4,107,658
Income due participants, end of year	$	344,674	$	209,681

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA PRIVATE EQUITY POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to invest and manage Montana's Unified Investment Program. The Montana Private Equity Pool (MPEP) was created by the Board to allow retirement funds, per section 17-6-201, MCA, the opportunity to participate in venture capital and leveraged buyout markets and other private equity investments via a diversified pool. The Board approved creation of the MPEP in April 2002. Effective May 1, 2002, the nine retirement funds transferred all their venture capital and leveraged buyout investments, at cost, totaling $159,799,310, and cash of $15,000,000 to the MPEP. These investments were previously reported in the All Other Funds financial statements.

Due to the complexity and specialization of private equity investment, the Board contracts with external private equity managers to invest in venture capital, leveraged buyout and other private equity investments. The eleven external managers as of June 30, 2006, by Board approval/commitment date, are:

Kohlberg, Kravis, Roberts and Company (KKR)	**August 1987**
Adams Street Partners, formerly Brinson Partners	**January 1988**
Welsh Carson Anderson and Stowe	**September 2000**
Madison Dearborn Partners	**January 2001**
Lexington Partners	**May 2001**
Oaktree Capital Management	**September 2002**
ArcLight Energy Partners	**April 2004**
Odyssey Investment Partners	**December 2004**
Carlyle Partners	**January 2005**
Oak Hill Capital Partners	**August 2005**
JLL Partners, Inc.	**November 2005**

In April 2005, the Board approved a staff recommendation that the "Board permanently delegate discretionary investment authority to Staff to negotiate and make binding commitments for MPEP private equity manager participation".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MPEP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBO's) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations. This debt is attractive to investors, not for repayment of interest and principal, which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors. Without undue principal risk, distressed debt investment managers seek capital appreciation through the sale of restructured debt obligations or newly issued securities. Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely illiquid.

MPEP cash is invested in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Cash is swept daily into SPIFF so MPEP can maintain 100% equity exposure.

Investments are presented in the Statement of Net Asset Value at fair value. Because a recognized market does not exist for private equity investment, MPEP investments, on valuation date, are stated at the fair value reported in the most recent external managers' valuation reports. Carrying value, parenthetically disclosed, represents the private equity security purchase price.

Participant Units

The nine pension funds transferred all their venture capital and leveraged buyout investments, at cost, into the MPEP at the start-up date and were issued units according to the fair value of each participant's portfolio and cash contribution. The initial unit value as of May 1, 2002 was $100. Although unit values are calculated at month end, the pool portfolio will be priced at least quarterly at the fair value reported in the external managers' valuation reports. Given the quarterly portfolio valuations, pool participant transactions will most likely occur on a quarterly basis. Based on the Investment Officer's decision, participants may buy, reinvest or sell units on the first business day of each month. All participant buys, reinvestments or sells occur after distribution of accumulated income.

Investment Income and Distribution

The Statement of Investment Income and Distribution reports cash dividends, interest, net realized gains and losses, and miscellaneous income. MPEP dividends are recorded on the ex-dividend date. Effective July 1, 2004, the MPEP net realized gains and losses are retained in the pool rather than distributed to the MPEP participants. This policy also allows realized gains to be used, if needed, to cover pool expenses. The fiscal year 2006 Investment Income includes the distribution of $2 million of realized gains. The fiscal year 2005 Investment Income reflects only the distribution of ordinary income.

The MPEP Income Available for Distribution is distributed or reinvested, on behalf of the nine retirement fund participants as determined by the Investment Officer. Any cash distributions or reinvestments will occur on the first business day of the following month. The Income Available for Distribution is net of MPEP external manager fees and Board administrative expenses.

The fiscal year 2006 administrative expense of $4,566,936 represents fees paid to the external managers of $4,166,179 per their contracts and $400,757 paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MPEP based on the Board's expenses applicable to MPEP.

The fiscal year 2005 administrative expense of $3,734,605 represents fees paid to the external managers of $3,498,261 per their contracts and $236,344 paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MPEP based on the Board's expenses applicable to MPEP.

The fiscal year 2006 and 2005 other expenses represent interest paid in subscribing to new partnerships.

Security Lending

Because there is no active security lending market for this asset class, MPEP does not participate in security lending.

3. COMMITMENTS

Private equity investments, typically, represent a seven to ten year commitment characterized by capital calls occurring during the first five years with distributions to the investor over the remaining term of the investment. The original and remaining commitments and their respective carrying and fair values, as of June 30, 2006, are listed on the next page.

Security Investment	Original Commitment Date	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
Separate Account Partnerships	Jan 1988-Apr 1990	$ 13,618,000	$ 25,000	$ 1,454,321	$ 878,429
Venture Partnership Acquisition Fund II	April 1990	4,000,000	0	190,080	41,497
Brinson Venture Capital/Partners Fund III	March 1992	10,000,000	0	1,721,501	2,052,743
Brinson Venture Capital/Partners Fund III	October 1999	10,000,000	0	2,028,790	2,052,743
Brinson Venture Capital Fund IV	May 1999	15,000,000	891,667	11,580,243	10,469,072
Brinson Non-US Partnership Trust	January 1999	9,809,482	1,785,689	5,783,866	7,984,824
Brinson Partnership Trust 1996-2003	March 1996	103,319,781	17,400,832	68,290,738	73,292,830
Adams Street Non-US Partnership Trust	Aug 2001-Dec 2004	16,000,000	9,634,500	5,741,358	6,542,438
Adams Street Partnership Fund	Aug 2001-Dec 2004	94,000,000	61,323,000	30,072,119	33,495,559
Adams Street Partners Fund V	August 2001	40,000,000	12,800,000	24,913,712	22,756,035
Adams Street Global Opportunities	September 2003	25,000,000	20,812,500	3,852,846	4,475,316
Adams Street Total		340,747,263	124,673,188	155,629,574	164,041,485
ArcLight Energy Partners Fund II	April 2004	25,000,000	9,451,151	14,168,812	14,526,815
ArcLight Energy Partners Fund III	November 2005	25,000,000	23,480,890	1,368,496	1,368,496
ArcLight Total		50,000,000	32,932,041	15,537,308	15,895,311
Carlyle Partners Fund IV	January 2005	35,000,000	20,531,295	14,315,672	14,395,986
Carlyle Venture Partners Fund III	April 2006	25,000,000	25,000,000	0	0
Carlyle Partners Total		60,000,000	45,531,295	14,315,672	14,395,986
JLL Partners Fund V	November 2005	25,000,000	19,566,667	3,052,490	2,921,123
JLL Partners Total		25,000,000	19,566,667	3,052,490	2,921,123
KKR 1986, 1987 Fund	August 1987	25,300,000	0	2,021,493	875,345
KKR 1993 Fund	December 1990	25,000,000	0	1,285,300	332,571
KKR 1996 Fund	July 1996	100,000,000	0	35,414,941	29,422,804
KKR European Fund	August 1999	25,000,000	0	16,081,329	21,567,105
KKR Total		175,300,000	0	54,803,063	52,197,825
Lexington Capital Partners Fund V	May 2001	50,000,000	7,135,505	15,014,222	33,854,248
Lexington Capital Partners Fund VI-B	September 2005	50,000,000	48,068,159	1,552,319	1,512,105
Lexington Capital Partners Total		100,000,000	55,203,664	16,566,541	35,366,353
Madison Dearborn Partners Fund IV	January 2001	18,394,269	2,385,747	13,218,761	16,639,921
Madison Dearborn Global Fund IV	September 2002	6,605,731	1,550,910	2,746,831	7,151,593
Madison Dearborn Partners Fund V	May 2006	25,000,000	25,000,000	0	0
Madison Dearborn Total		50,000,000	28,936,657	15,965,591	23,791,515
Oak Hill Capital Partners II	August 2005	21,656,022	17,207,207	3,920,199	3,838,368
Oak Hill Capital Partners II (Cayman)	August 2005	3,343,978	0	3,343,978	3,933,920
Oak Hill Capital Partners Total		25,000,000	17,207,207	7,264,177	7,772,288
Oaktree Capital Fund IVB	September 2002	75,000,000	0	1	5,907,856
Oaktree Total		75,000,000	0	1	5,907,856
Odyssey Investment Partners Fund III	December 2004	25,000,000	15,831,731	8,414,360	8,205,659
Odyssey Total		25,000,000	15,831,731	8,414,360	8,205,659
Welsh Carson Anderson & Stowe Fund IX	September 2000	25,000,000	1,750,000	14,140,769	22,227,620
WCAS Capital Partners Fund IV	June 2004	25,000,000	13,750,000	11,250,000	11,946,218
WCAS X	November 2005	25,000,000	19,750,000	4,985,938	5,014,567
Welsh Carson Total		75,000,000	35,250,000	30,376,707	39,188,404
Total Private Equity Commitments		$ 1,001,047,263	$ 375,132,450	$ 321,925,484	$ 369,683,805

4. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all MPEP investments were recorded in the name of the Montana Board of Investments. The State Street Bank repurchase agreement for $447,174, as of June 30, 2005, was purchased in the State of

Montana Board of Investments name. This repurchase agreement was collateralized at $458,263 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement No. 40, no foreign currency risk disclosure is required for these limited partnership investments.

Specific Risk

Private equity investments are recognized as investments with a higher degree of risk with a higher return potential than traditional equity investments. Portfolio diversification of risk is achieved through multiple partnership relationships and investments diversified by time, financing stage, industry sector, investment size and geographical region. Private equity investments typically have a low correlation relative to other investment asset classes and contribute to the reduction of portfolio risk and the enhancement of expected returns on a total investment portfolio basis. Specific risks associated with MPEP are further described in the MPEP Investment Policy Statement.

5. INTERMOUNTAIN PRIVATE EQUITY PARTNERS

In October 2004, the Board committed $25 million to Inter Mountain Private Equity Partners, LP , a regional venture capital "fund of funds" with Credit Suisse First Boston (CSFB), as the General Partner . This commitment was contingent upon CSFB raising an additional $15 million from other investors in the region. Despite best efforts, the Fund dissolved May 2006 and the Board's commitment was withdrawn.

6. PRIVATE EQUITY COMMITMENT

On August 24, 2006, the Board funded the initial capital call in Carlyle Venture Fund III of $4,402,470 which included investment and management fees.

In July 2006, the staff committed $25 million to JC Flowers Sidecar Fund II, a buyout fund focused on the global financial services industry. On August 14, 2006, the Board made the initial investment of $1,801,958.

In July 2006, the staff committed $30 million to First Reserve Corp Fund XI, a buyout fund focused on the energy industry.

In August 2006, the staff committed $35 million to Lehman Brothers Co-Investment Fund I and $30 million to CCMP Capital Investors Fund II. Both managers invest in mid-market buyout funds.

7. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT download function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

8. YEAR END PORTFOLIO

The June 30, 2006 MPEP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Par	Carrying Value	Fair Value	%
ALTA SUB DEBT PARTNERS III	74,258	74,258	74,242	0.02%
AUSTIN VENTURES III	235,584	235,584	194,032	0.05%
CAPITAL PARTNERS HOLDINGS II A	1	1	465,745	0.12%

Security Name	Par	Carrying Value	Fair Value	%
MATRIX PARTNERS III L P	33,134	33,134	2,654	0.00%
NEW ENTERPRISE ASSOC V LP	244,990	244,990	0	0.00%
O DONNELL + MASUR L P	231,107	231,107	31,895	0.01%
SPROUT CAPITAL VI	244,756	244,756	6,725	0.00%
SUMMIT VENTURE II	128,881	128,881	1,739	0.00%
WCAS CAPITAL PARTNERS II	261,611	261,611	101,397	0.03%
SEPARATE PARTNERSHIPS	**1,454,321**	**1,454,321**	**878,429**	**0.22%**
VENTURE PARTNERSHIP ACQUIST	190,080	190,080	41,497	0.01%
VENTURE PARTNER ACQUISITION II	**190,080**	**190,080**	**41,497**	**0.01%**
BRINSON VENTURE CAPITAL III SECONDARY	82,168	82,168	251,374	0.06%
BRINSON VENTURE PARTNERS III SECONDARY	1,946,622	1,946,622	1,801,369	0.45%
BRINSON VENTURE CAPITAL FUND III	71,872	71,872	251,374	0.06%
BRINSON VENTURE PARTNER FUND III	1,649,629	1,649,629	1,801,368	0.45%
INSTITUTIONAL VENTURE CAP FUND III	**3,750,291**	**3,750,291**	**4,105,486**	**1.02%**
BRINSON VENTURE CAPITAL FUND IV	11,580,243	11,580,243	10,469,072	2.61%
BRINSON VENTURE CAPITAL FUND IV	**11,580,243**	**11,580,243**	**10,469,072**	**2.61%**
BRINSON NON US PARTNERSHIP FUND	5,783,866	5,783,866	7,984,824	1.99%
BRINSON PARTNERSHIP FUND TRUST	68,290,738	68,290,738	73,292,830	18.29%
BRINSON PARTNERSHIP TRUST	**74,074,604**	**74,074,604**	**81,277,653**	**20.28%**
ADAMS NON US PARTNERSHIP FUND	5,741,358	5,741,358	6,542,438	1.63%
ADAMS STREET PARTNERSHIP FUND	30,072,119	30,072,119	33,495,559	8.36%
ADAMS STREET PARTNERS TRUST	**35,813,477**	**35,813,477**	**40,037,997**	**9.99%**
ADAMS STREET FUND V	24,913,712	24,913,712	22,756,035	5.68%
ADAMS STREET FUND V	**24,913,712**	**24,913,712**	**22,756,035**	**5.68%**
ADAMS STREET GLOBAL OPPORTUNITES	3,852,846	3,852,846	4,475,316	1.12%
ADAMS STREET GLOBAL OPPORTUNITES	**3,852,846**	**3,852,846**	**4,475,316**	**1.12%**
ADAMS STREET TOTAL	**155,629,574**	**155,629,574**	**164,041,485**	**40.94%**
ARCLIGHT ENERGY PARTNERS FD II	14,168,812	14,168,812	14,526,815	3.63%
ARCLIGHT ENERGY PARTNERS FD III	1,368,496	1,368,496	1,368,496	0.34%
ARCLIGHT CAPITAL TOTAL	**15,537,308**	**15,537,308**	**15,895,311**	**3.97%**
CARLYLE PARNTERS IV, L.P.	11,003,388	11,003,388	11,083,702	2.77%
CARLYLE PARTNERS IV CAYMAN	3,312,284	3,312,284	3,312,284	0.83%
CARLYLE GROUP TOTAL	**14,315,672**	**14,315,672**	**14,395,986**	**3.59%**
JLL PARTNERS FUND V LP	3,052,490	3,052,490	2,921,123	0.73%
JLL PARTNERS TOTAL	**3,052,490**	**3,052,490**	**2,921,123**	**0.73%**
KKR 1986 1987	2,021,493	2,021,493	875,345	0.22%
KKR 1993	1,285,300	1,285,300	332,571	0.08%
KKR 1996	35,414,941	35,414,941	29,422,804	7.34%
KKR EUROPEAN FUND	16,081,329	16,081,329	21,567,105	5.38%
KKR TOTAL	**54,803,063**	**54,803,063**	**52,197,825**	**13.03%**
LEXINGTON CAPITAL PARTNERS VIB	1,552,319	1,552,319	1,512,105	0.38%
LEXINGTON CAPITAL PARTNERSHIP V	15,014,222	15,014,222	33,854,248	8.45%
LEXINGTON CAPITAL TOTAL	**16,566,541**	**16,566,541**	**35,366,353**	**8.83%**
MADISON DEARBORN CAPITAL PARTNERS IV	13,218,761	13,218,761	16,639,921	4.15%
MDP IV GLOBAL INVESTMENTS LP	2,746,831	2,746,831	7,151,593	1.78%
MADISON DEARBORN TOTAL	**15,965,591**	**15,965,591**	**23,791,515**	**5.94%**
OAK HILL CAPITAL PARTNERS II	3,920,199	3,920,199	3,838,368	0.96%
OAK HILL CP II (CAYMAN)	3,343,978	3,343,978	3,933,920	0.98%
OAK HILL CAPITAL TOTAL	**7,264,177**	**7,264,177**	**7,772,288**	**1.94%**

Security Name	Par	Carrying Value	Fair Value	%
OCM OPPORTUNITIES FUND IVB LP	1	1	5,907,856	1.47%
OAKTREE CAPITAL TOTAL	**1**	**1**	**5,907,856**	**1.47%**
ODYSSEY INVESTMENT PARTNERS FUND III	8,414,360	8,414,360	8,205,659	2.05%
ODYSSEY PARTNERS TOTAL	**8,414,360**	**8,414,360**	**8,205,659**	**2.05%**
WCAS CAPITAL PARTNERS FUND IV	11,250,000	11,250,000	11,946,218	2.98%
WCAS IX	14,140,769	14,140,769	22,227,620	5.55%
WCAS X LP	4,985,938	4,985,938	5,014,567	1.25%
WCAS TOTAL	**30,376,707**	**30,376,707**	**39,188,404**	**9.78%**
TOTAL PRIVATE EQUITIES	**321,925,484**	**321,925,484**	**369,683,805**	**92.25%**
STATE STREET SPIFF	184,326	31,232,912	31,043,496	7.75%
STATE STREET TOTAL	**184,326**	**31,232,912**	**31,043,496**	**7.75%**
MPEP TOTAL	**322,109,810**	**353,158,397**	**400,727,301**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Investments Managed for the state of Montana Board of Investments, All Other Funds, as of June 30, 2006, and 2005, and the related Statement of Net Investment Income and Statement of Changes in Net Investments Managed for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investments managed by the Montana Board of Investments, All Other Funds, as of June 30, 2006, and 2005, and its net investment income and changes in its net investments managed for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS FINANCIAL STATEMENTS

STATEMENT OF NET INVESTMENTS MANAGED, JUNE 30, 2006 AND 2005

		2006		2005
Assets				
Investments managed at fair value (amortized cost of $1,482,517,445 in 2006 and $1,455,078,161 in 2005) (Notes 2, 6 and 13)	$	1,476,243,872	$	1,477,780,667
Security lending cash collateral (Notes 3 and 6)		372,705,511		200,025,086
Interest receivable		15,409,976		14,147,103
Broker receivable for securities sold but not settled (Note 2)		127,807		150,249
Total assets	$	1,864,487,166	$	1,692,103,105
Liabilities				
Unrealized gain (loss)	$	(6,273,573)	$	22,702,506
Security lending obligations		372,705,511		200,025,086
Security lending expense payable		811,666		468,041
Broker payable for securities purchased but not settled (Note 2)		0		7,000,000
Accounts payable		31,996		10,628
Total liabilities	$	367,275,600	$	230,206,261
Net investments managed	$	1,497,211,566	$	1,461,896,844

STATEMENT OF NET INVESTMENT INCOME
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

Income				
Investment income (Note 2)	$	68,598,183	$	67,036,824
Realized gain/loss on sales (Note 2)		41,367,058		14,582,969
Amortization/accretion		1,011,473		(686,441)
Security lending income		9,457,635		4,905,282
Total income	$	120,434,349	$	85,838,634
Expenses				
Administrative expenses		929,648		1,041,912
Security lending expense		9,308,384		4,707,900
Total expenses	$	10,238,032	$	5,749,812
Net investment income	$	110,196,317	$	80,088,822

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN NET INVESTMENTS MANAGED
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Total net investments managed, beginning of year	**$ 1,461,896,844**	**$ 1,338,199,509**
Net investment income	**110,196,317**	**80,088,822**
Income remitted to agencies	**111,459,190**	**80,311,768**
Increase (decrease) in interest receivable	**1,262,873**	**222,946**
Increase (decrease) in broker receivable (Note 2)	**(22,442)**	**(234,728)**
Increase (decrease) in security lending cash collateral (Notes 3 and 6)	**172,680,425**	**(26,674,762)**
Investments purchased	**5,512,694,333**	**2,935,049,627**
Investments sold, matured and called	**(5,486,266,522)**	**(2,803,372,615)**
Increase (decrease) in book value of investments	**26,427,811**	**131,677,012**
Increase (decrease) in book value of investments due to net amortization of discounts and premiums	**1,011,473**	**(686,441)**
(Increase) decrease in broker payable (Note 2)	**7,000,000**	**(7,000,000)**
(Increase) decrease in accounts payable	**(21,368)**	**(341)**
(Increase) decrease in security lending obligations (Notes 3 and 6)	**(172,680,425)**	**26,674,762**
(Increase) decrease in security lending expense payable	**(343,625)**	**(281,113)**
Net investments managed, end of year	**$ 1,497,211,566**	**$ 1,461,896,844**

The accompanying notes are an integral part of these financial statements.

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis per section 17-6-201, MCA. The All Other Funds (AOF) investments and income are owned by various State of Montana agencies and managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

The AOF investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle" and applicable investment restrictions of the participants. The AOF portfolio includes securities classified as corporate, U.S. government direct-backed, U.S. government indirect-backed, equity index, real estate, mortgages and loans. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite.

AOF fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. As of June 30, 2006, the AOF portfolio held two variable rate corporate bonds with an amortized cost of $14 million. As of June 30, 2005, the AOF portfolio held one variable rate corporate bond with an amortized cost of $4 million. The AOF variable-rate securities float with LIBOR (London Interbank Offered Rate), a residual component or the weighted average of the net mortgage interest rates for the mortgage loan group. (See Note 13 for the Year End Portfolio.)

Investments are presented in the Statement of Net Investments Managed at fair value. Fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank and Trust. The real estate investments and residential and multi-family mortgages are valued based on a discounted cash flow. The commercial in-state coal tax loans and the nonparticipating repurchase agreements are reported at amortized cost. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Broker Receivable/Payable

AOF security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the AOF portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Montana Mortgages and Loans Receivable

The Montana mortgages and loans receivable, included in the Statement of Net Investments Managed, represent residential mortgages and multifamily commercial loans funded by the Public Employees' and Teachers' pension funds and other loans funded by the Coal Severance Tax Trust fund. In November and December 2004, the multifamily commercial loans held by the Public Employees' and Teachers' pension funds totaling $3,334,969 were sold to the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust loan portfolio includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and by law, the MSTA portfolio was assigned to the Board of Investments. (See Note 7 for the Montana mortgages and loans portfolio).

In June 2005, the Board received notice that Positive Systems, Inc. has "ceased business operations". This borrower, funded by the MSTA, received $200,000 and $350,000 in May 1994 and March 1998, respectively. As of June 30, 2006 and 2005, Positive Systems, Inc. had an outstanding loan balance of $546,074. In July 2006, the Board received confirmation that Positive Systems, Inc. has "indeed ceased all business operation". This loan balance of $546,074 was written off in September 2006. With the exception of this loan, there were no other uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2006 and 2005. In February 2005, the Board charged off $147, 156 in principal for Safe ShopTools, Inc. The MSTA funded a total of $162,500 to Safe ShopTools, Inc. in February 1997 and June 1999.

In March 2005, the Monthly Mortgage Accounting Process related to remittances, payoffs and billing was transferred to the Montana Board of Housing accounting staff.

Investment Income

Investment income reported in the Statement of Net Investment Income includes fixed income and mortgage interest earnings, real estate income, commercial loan interest earnings and commitment fees.

Realized Gain on Sales

Realized gain on sales reported in the Statement of Net Investment Income represents the net gain/loss resulting from the sale of fixed income, private equity and pool investments. In fiscal year 2006, the sale of pool units from the Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), and the Montana International Equity Pool (MTIP) generated a net gain to participants of $42,974,810. In fiscal year 2005, the sale of pool units from the Montana Domestic Equity Pool (MDEP) and the Trust Funds Bond Pool (TFBP), generated a net gain to participants of $13,609,808.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 102 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street Bank loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively, as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2006, the carrying and fair value of the underlying securities on loan for the All Other Funds was $201,367,407 and $198,856,122, respectively. The collateral provided for the securities on loan totaled $372,705,511 in cash and $6,215,625 in securities collateral. The carrying value of the underlying securities on loan is categorized as $13,922,060 corporate, $27,403,678, U.S. government direct-backed and $160,041,669 U.S. government indirect-backed.

As of June 30, 2005, the carrying and fair value of the underlying securities on loan for the All Other Funds was $213,820,105 and $217,153,315, respectively. The collateral provided for the securities on loan totaled $200,025,086 in cash and $23,616,389 in securities collateral. The carrying value of the underlying securities on loan is categorized as $31,693,857 corporate, $30,489,301, U.S. government direct-backed and $151,636,947 U.S. government indirect-backed.

4. COAL TAX LOAN AND MORTGAGE COMMITMENTS

The Board makes firm commitments to fund loans from the Coal Severance Tax Trust fund. These commitments have expiration dates and may be extended according to the Board's policies. As of June 30, 2006, the Board had committed but not yet purchased $76,503,977 in loans from Montana lenders, compared to $78,813,735 as of June 30, 2005. In addition to the above commitments, lenders had reserved $55,143,007 for loans as of June 30, 2006, compared to $28,884,945 on the same date in 2005.

The Board makes reservations to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2006, mortgage reservations totaled $1,478,884. Effective December 1, 2005, all Board residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment. As of June 30, 2005, the Board had committed but not yet purchased from Montana lenders mortgages totaling $2,145,343. Mortgage reservations totaled $1,683,900 as of June 30, 2005.

5. PENSION FUND REAL ESTATE INVESTMENTS

100 North Park Building

In January 1996, the Board, on behalf of the Public Employees' and Teachers' Retirement funds, purchased the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of $4,864,326, the building carries a fair value of $6,141,593 as of June 30, 2006. During fiscal year 2006, building improvements for tenant remodeling, heating/cooling, and leasing fees totaling $64,607 were added to the cost of the building. Building improvements and leasing fees totaling $151,567 were included in the cost of the building in fiscal year 2005. The three-story building provides office space for approximately eight to ten tenants.

2401 Colonial Drive Building

In August 1997, the Board authorized the construction of an office building, as a real estate investment owned equally by the Public Employees' and Teachers' Retirement funds. Construction costs, including interest capitalization, totaled $6,481,741 as of June 30, 2000. In fiscal year 2006, heating/cooling system improvements and leasing fees of $93,257 were added to the building cost. For fiscal year 2005, $48,838 was expended on parking lot resurfacing and heating/cooling system improvements. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2006, the building carries a cost and fair value of $7,183,851 and $7,676,250, respectively.

2273 Boot Hill Court Building

In August 1999, the Board authorized the purchase of a new office building in Bozeman, Montana. Upon construction completion, the Public Employees' and Teachers' Retirement funds purchased the building, in March 2004, as a real estate investment with equal ownership, for $2,051,032. In fiscal year 2006, there were no improvements made to this building. In fiscal year 2005, telecommunication system payments were added to the building cost of $10,238. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2006, the building carries a fair value of $2,082,014.

1712 Ninth Avenue Building

In November 2000, the Board reviewed the transfer of the Public Employees' Retirement Administration (PERA) office building, located at 1712 Ninth Avenue, Helena, to the Board of Investments. By issuance of a corrective deed, the Board of Investments was named owner and building manager for the use and benefit of the PERA. In fiscal year 2006, installations were made for door operators totaling $3,257. During fiscal year 2005, fire alarm system upgrades and parking lot improvements totaling $12,600 were added to the building cost. As of June 30, 2006, the building, occupied by one tenant, is valued at $579,626.

The schedule below details the minimum future rentals for the above buildings with non-cancelable operating leases as of June 30, 2006 and 2005:

Minimum future rentals for the year ending June 30, 2006:

2007	2008	2009	2010	2011	2012+	Total
$833,146	$432,518	$435,122	$439,993	$413,109	$477,931	$3,031,819

Minimum future rentals for the year ending June 30, 2005:

2006	2007	2008	2009	2010	2011+	Total
$705,654	$404,496	$295,823	$243,861	$248,732	$731,656	$2,630,222

California Street Property

In December 1998, the Board acquired a parcel of land adjacent to the Colonial Drive building to provide for additional parking. This land was purchased for $204,835. As of June 30, 2006 the property carries a fair value of $213,603.

6. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, all the fixed income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. The State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 20 remaining investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. This fund also has specific client preferences. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs)."

As of June 30, 2006 and 2005, the AOF portfolio did not hold any structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. The REMIC securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2006 and June 30, 2005. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Credit Quality Rating and Effective Duration as of June 30, 2006

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	$	386,073,420	A	3.69
U.S. Government Direct-Backed		62,682,844	AAA	4.55
U.S. Government Indirect-Backed		620,036,700	AAA	2.39
US Bank Sweep Repurchase Agreement*		18,642,905	NR	NA
Total Fixed Income Investments	$	1,087,435,869	AA	2.99
Direct Investments				
Equity Index Fund	$	83,377,362		
Real Estate		16,693,086		
MT Mortgages and Loans		288,737,555		
Total Direct Investments	$	388,808,003		
TOTAL INVESTMENTS	$	1,476,243,872		
Securities Lending Collateral Investment Pool	$	372,705,511	NR	NA

*At June 30, 2006, the US Bank repurchase agreement, per contract,was collateralized at 102% for $19,024,084 by a Federal Home Loan Mortgage Corporation REMIC maturing July 15, 2033. This security carries a AAA credit quality rating.

Credit Quality Rating and Effective Duration as of June 30, 2005

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	$	344,153,594	A	3.83
U.S. Government Direct-Backed		72,631,014	AAA	3.35
U.S. Government Indirect-Backed*		634,726,860	AAA	2.25
State Street Repurchase Agreement** (Rated)		10,350,520	AA-	NA
US Bank Sweep Repurchase Agreement***		16,542,234	NR	NA
Total Fixed Income Investments *	$	1,078,404,222	AA	2.84
Direct Investments				
Equity Index Fund	$	76,737,097		
Equity Other		140		
Real Estate		16,474,430		
MT Mortgages and Loans		306,164,778		
Total Direct Investments	$	399,376,445		
TOTAL INVESTMENTS	$	1,477,780,667		
Securities Lending Collateral Investment Pool	$	200,025,086	NR	NA

* The U.S. Government Indirect-Backed Effective Duration changed from 2.74 to 2.25 due to correction of an error. This change resulted in the revision of the Effective Duration for the Total Fixed Income Investments from 2.99 to 2.84.

** At June 30, 2005, the State Street Bank repurchase agreement was collateralized at $10,607,177 by a AAA rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

***At June 30, 2005, the US Bank repurchase agreement, per contract,was collateralized at 102% for $16,874,485 by Federal Home Loan Mortgage Corporation REMICs maturing September 15, 2032 and November 15, 2033. These securities carry a AAA credit quality rating.

Specific Legal and Credit Risk

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the Board. The AOF portfolio held a $10 million par 6.417% Delta Airlines Corp. bond maturing July 2, 2012. The book value of this security was $9,968,673 as of June 30, 2005. This issue was insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance. Delta Airlines Corp. filed for Chapter 11 bankruptcy protection on September 14, 2005. Since this issue was insured, the Board did not stop the interest income accrual or reduce the book value. In April 2006, the outstanding principal and interest of $10, 187,163 for this security was paid by the MBIA Insurance Corp. The Board recorded a gain of $27,677 on this transaction.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the Board. The AOF portfolio held a $4,137,515 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020. The book value of this security was $4,084,548 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the Board stopped the interest income accruals after the August 2005 pay date. This issue was sold on September 20, 2005 generating a loss of $358,311. The sale included accrued interest from August 1, 2005 to September 20, 2005.

7. MONTANA MORTGAGES AND LOANS

The Montana mortgages and loans portfolio is shown below.

Montana Mortgages and Loans	2006 Book Value	2005 Book Value
Residential Mortgages	**80,750,504**	**92,939,453**
Science and Technology Alliance [(1)]	4,985,147	5,046,515
Montana University System[(1)]	8,880,585	8,956,895
Department of Natural Resources [(2)]	31,047,064	41,896,024
Department of Justice	2,112,000	2,112,000
Montana Facility Finance	14,476	47,482
Local Government Infrastructure	7,465,725	5,659,452
Value-added Loans	9,191,738	11,104,003
Commercial Loans	145,231,919	137,531,210
Permanent Coal Trust Loans	**208,928,654**	**212,353,581**
Total Montana Mortgages and Loans	**$ 289,679,158**	**$ 305,293,034**

(1) The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans. The Commercial Loan total, as previously reported of $146,488,105 as of June 30, 2005, included $8,956,895 in loans to the Montana University System. This total has been restated as $137,531,210 to separately report the total loans to the Montana University System.

(2) In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of $46,366,904, to the Department of Natural Resources, Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund. In fiscal year 2006, the Trust and Legacy Fund paid $10,848,960 to the Coal Severance Tax Permanent Trust. These transactions reduced the TFBP shares on loan to 323,819 with a corresponding book value of $31,047,064. During fiscal year 2005, the Trust and Legacy Fund paid $2,650,063 to the Coal Severance Tax Permanent Trust reducing the TFBP shares on loan to 436,973 with a corresponding book value of $41,896,024.

8. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $2 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $215,453 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of

$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $2,273,230 in principal and interest plus $60,000 as a consent fee.

On December 11, 2003, the Supreme Court of the State of New York, New York County, entered an order dismissing Deutsche Bank's complaint on jurisdictional grounds. Deutsche Bank appealed that decision to the Appellate Division, which on June 14, 2005 reversed the Supreme Court and entered an order determining the Board to be liable and remanding the matter back to the Supreme Court for a determination of damages. The Board appealed that decision to the New York Court of Appeals, which on June 6, 2006 affirmed the Appellate Divison's decision. The Board has since petitioned for certiorari to the United States Supreme Court on certain jurisdictional issues. At the same time, discovery is proceeding in the New York Supreme Court to determine damages.

9. LOAN GUARANTEES

As of June 30, 2006, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total $131,280,309. Board of Investment exposure to bond issues of the Enterprise Fund is $84,050,000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is $47,230,309.

As of June 30, 2005, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Montana Facility Finance Authority total $130,476,641. Board of Investment exposure to bond issues of the Enterprise Fund is $85,160, 000 while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is $45,316, 641.

10. BLOOMBERG PORTFOLIO ORDER MANAGEMENT SYSTEM (POMS)

In July 2005, the Board agreed to lease a Portfolio Order Management System (POMS) from Bloomberg Financial Services. This electronic securities trading system reduces trading time and paperwork, increases trading and accounting accuracy, and provides certain controls not previously available. The Board has been using the basic Bloomberg Financial Network Services for many years and already leased the hardware required to implement the trading system.

Electronic trading began with the internally-managed component of the Montana Domestic Equity Pool in August 2005. Implementation of electronic trading for the Short Term Investment Pool and the other fixed income portfolios, as managed by Board Staff, was completed in fiscal year 2006.

11. CLASS ACTION LITIGATION

In April 2005, the Board signed a contract with the law firm Barrack, Rodos & Bacine to ensure that the Board participates in all class action litigation to which it is entitled to participate. Historically, the Board, by agreement with its custodial bank, State Street Bank, has relied on State Street staff to complete and file class action claims on the Board's behalf.

While State Street Bank will continue to complete these duties, the law firm will monitor transactions that may entitle the Board to be a party in any class action litigation. The law firm will access Board portfolios and securities transactions on the State Street accounting system using the INSIGHT download function. The law firm will then request written documentation from the Bank proving the claims have been filed.

Class action litigation results from fraudulent activity damaging the Board's investments. While the Board has never pursued becoming a lead plaintiff in class action litigation, the law firm contract permits the Board to become a lead or co-lead plaintiff in these instances. Under certain circumstances the Board's fiduciary responsibility may require it to act as a lead or co-lead plaintiff to recover funds lost to fraud or other questionable activity.

12. SUBSEQUENT EVENT

On May 18, 2006, the Board approved authorization for a real estate allocation in the Montana State Fund portfolio for the cost of a new building.

13. YEAR END PORTFOLIO

The June 30, 2006 All Other Funds portfolio is listed below. The security type percentage is based on the fair value ratio of the specific category of securities to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
US BANK SWEEP REPURCHASE AGREEMENT	5.25	07/03/06	18,642,905	18,642,905	18,642,905	1.26%
Cash Equivalents			**18,642,905**	**18,642,905**	**18,642,905**	**1.26%**
AA / FT WORTH HQ FINANCE TRUST	5.50	10/05/10	8,695,227	8,695,227	8,465,151	0.57%
ABBOTT LABS	3.50	02/17/09	10,000,000	9,972,223	9,503,875	0.64%
AMERICAN GENERAL FINANCE CORP	4.88	05/15/10	5,000,000	4,999,459	4,832,847	0.33%
ARIA CDO II	VAR	10/10/12	10,000,000	10,000,000	9,949,900	0.67%
B J SERVICES	5.75	06/01/11	5,000,000	4,993,533	4,953,635	0.34%
BANK AMERICA CORP	3.38	02/17/09	5,000,000	4,986,320	4,736,812	0.32%
BANK AMERICA CORP	5.38	06/15/14	5,000,000	4,963,586	4,836,726	0.33%
BANK ONE CORP	6.25	02/15/08	2,000,000	1,973,428	2,020,118	0.14%
BANKBOSTON NA	6.38	03/25/08	2,000,000	1,973,987	2,025,395	0.14%
BORG WARNER AUTOMOTIVE INC	7.00	11/01/06	4,000,000	4,005,034	4,020,313	0.27%
BURLINGTON NORTHERN RR CO EQUIPMENT TR	6.94	01/02/14	2,962,735	2,962,735	3,122,528	0.21%
BURLINGTON NORTHN SANTA FE EQUIPMENT TR	7.16	01/02/20	4,147,983	4,147,983	4,392,411	0.30%
CIT GROUP EQUIPMENT TRUST	6.49	01/05/21	6,861,082	6,861,082	7,102,596	0.48%
CIT GROUP INC	5.20	11/03/10	5,000,000	4,999,088	4,882,998	0.33%
CIT GROUP INC	5.75	09/25/07	5,000,000	5,052,769	5,010,334	0.34%
CSX CORP	7.45	05/01/07	5,000,000	4,999,371	5,074,298	0.34%
CENTEX CORP	5.70	05/15/14	3,000,000	2,996,750	2,785,913	0.19%
CITIGROUP INC	6.00	02/21/12	5,000,000	4,998,956	5,055,831	0.34%
CITIGROUP INC	3.63	02/09/09	5,000,000	4,993,734	4,760,660	0.32%
COMCAST CORP	5.45	11/15/10	5,000,000	5,009,301	4,919,870	0.33%
COMMERCIAL MORTGAGE TRUST	5.54	06/10/46	12,000,000	12,029,179	11,958,523	0.81%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.56	08/15/13	5,000,000	5,015,893	5,088,941	0.34%
COUNTRYWIDE HOME LOANS INC	2.88	02/15/07	8,000,000	7,997,668	7,862,660	0.53%
DETROIT EDISON CO	5.20	10/15/12	5,000,000	4,956,412	4,826,014	0.33%
DONNELLEY R R + SONS CO	4.95	04/01/14	5,000,000	4,838,107	4,501,655	0.30%
ENTERGY ARKANSAS INC	4.50	06/01/10	3,000,000	2,989,596	2,858,711	0.19%
FIRST CHICAGO CORP	6.38	01/30/09	2,000,000	1,950,180	2,036,850	0.14%
FORD MOTOR CREDIT	5.80	01/12/09	5,000,000	5,044,893	4,567,850	0.31%
FORD MOTOR CREDIT	5.70	01/15/10	5,000,000	4,976,255	4,374,571	0.30%
FORTUNE BRANDS INC	5.38	01/15/16	5,000,000	4,968,175	4,625,130	0.31%
GALENA CDO I	VAR	01/11/13	4,000,000	4,000,000	3,997,200	0.27%
GENERAL ELECTRIC CAPITAL CORP	4.38	11/21/11	10,000,000	9,727,139	9,406,476	0.64%
GENERAL ELECTRIC CAPITAL CORP	5.38	03/15/07	10,000,000	10,044,932	9,994,716	0.68%
GENERAL MOTORS ACCEPTANCE CORP	6.13	08/28/07	5,000,000	5,002,122	4,937,906	0.33%
GENERAL MOTORS ACCEPTANCE CORP	5.63	05/15/09	5,000,000	5,003,648	4,737,590	0.32%
GOLDMAN SACHS GROUP INC	5.35	01/15/16	5,000,000	4,945,277	4,697,473	0.32%
GOLDMAN SACHS GROUP INC	3.88	01/15/09	5,000,000	5,028,814	4,786,975	0.32%
HSBC FINANCE CORP	5.50	01/19/16	5,000,000	5,008,624	4,761,840	0.32%
HOUSEHOLD FINANCE CORP	4.75	05/15/09	1,000,000	999,503	973,361	0.07%
IBP FINANCE CO	7.45	06/01/07	4,000,000	3,999,747	4,043,508	0.27%
ING SECURITY LIFE INSTITUTIONAL FUND	4.25	01/15/10	3,000,000	2,995,352	2,875,878	0.19%
INTERNATIONAL LEASE FINANCE CORP	5.13	11/01/10	5,000,000	4,982,869	4,858,117	0.33%
INTERNATIONAL LEASE FINANCE CORP	4.55	10/15/09	5,000,000	5,086,002	4,817,620	0.33%
J P MORGAN CHASE + CO	5.35	03/01/07	5,000,000	4,996,664	4,994,339	0.34%
J P MORGAN CHASE + CO	3.50	03/15/09	10,000,000	9,967,858	9,461,889	0.64%
J P MORGAN CHASE COMMERCIAL MORTGAGE TR	4.20	07/12/35	18,319,479	18,401,037	17,504,753	1.19%
J P MORGAN CHASE COMMERCIAL MORTGAGE TR	3.05	01/15/38	2,291,397	2,294,380	2,177,414	0.15%
KCT INTERMODAL EQUIPMENT TRUST	6.88	08/01/18	3,317,333	3,317,333	3,430,195	0.23%
KEY BANK	4.41	03/18/08	5,000,000	5,000,000	4,906,025	0.33%
KEYBANK NATL ASSN MTN	5.45	03/03/16	5,000,000	4,998,839	4,780,155	0.32%
KRAFT FOODS INC	4.13	11/12/09	3,000,000	2,990,159	2,851,455	0.19%
LEHMAN BROTHERS HOLDINGS INC	5.00	01/14/11	5,000,000	4,980,014	4,859,818	0.33%
LEHMAN BROTHERS HOLDINGS INC	3.95	11/10/09	3,000,000	2,995,980	2,835,486	0.19%
MARSH + MCLENNAN COS INC	7.13	06/15/09	3,000,000	2,997,800	3,091,757	0.21%
MERRILL LYNCH + CO INC	4.13	01/15/09	5,000,000	4,998,509	4,827,668	0.33%
METLIFE INC	5.00	11/24/13	5,000,000	4,964,446	4,703,825	0.32%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
MORGAN STANLEY	4.00	01/15/10	5,000,000	4,971,587	4,725,451	0.32%
MORGAN STANLEY	5.05	01/21/11	5,000,000	4,988,324	4,853,430	0.33%
NATIONWIDE FINANCIAL SERVICES INC	6.25	11/15/11	5,000,000	5,220,776	5,087,210	0.34%
OLD REPUBLIC INTERNATIONAL CORP	7.00	06/15/07	3,000,000	2,999,845	3,038,877	0.21%
PNC FUNDING CORP	4.20	03/10/08	5,000,000	4,998,675	4,876,080	0.33%
PPL MONTANA LLC	8.90	07/02/20	3,915,104	3,915,104	4,371,248	0.30%
PANAMERICAN BEVERAGES INC	7.25	07/01/09	2,000,000	1,981,791	2,160,000	0.15%
ALTRIA GROUP INC	7.65	07/01/08	5,000,000	5,243,764	5,165,932	0.35%
PRINCIPAL LIFE GLOBAL FUNDING	5.13	10/15/13	5,000,000	4,994,642	4,773,854	0.32%
PRUDENTIAL FINANCIAL INC	5.50	03/15/16	5,000,000	4,900,474	4,806,330	0.33%
SBC COMMUNICATIONS INC	5.30	11/15/10	5,000,000	4,990,505	4,869,511	0.33%
SLM CORP	4.50	07/26/10	5,000,000	4,988,610	4,774,259	0.32%
ST PAUL TRAVELERS COS INC	6.25	06/20/16	5,000,000	4,982,453	5,043,533	0.34%
SOUTHWEST GAS CORP	8.38	02/15/11	4,000,000	3,997,174	4,357,430	0.30%
UNION BANK CALIFORNIA	5.95	05/11/16	5,000,000	5,004,214	4,911,454	0.33%
VERIZON COMMUNICATIONS INC	5.35	02/15/11	2,000,000	1,995,909	1,946,957	0.13%
VERIZON COMMUNICATIONS INC	5.55	02/15/16	5,000,000	4,961,441	4,688,195	0.32%
WACHOVIA CORP	4.95	11/01/06	3,000,000	2,999,557	2,997,315	0.20%
WASHINGTON MUTUAL INC	4.20	01/15/10	5,000,000	4,994,655	4,755,940	0.32%
WELLS FARGO + CO	4.63	04/15/14	5,000,000	4,832,309	4,612,259	0.31%
WESTERN PROPERTIES REIT	7.20	09/15/08	1,000,000	986,939	1,027,875	0.07%
WYETH	5.50	02/01/14	5,000,000	4,992,658	4,857,711	0.33%
ZIONS BANCORPORATION	5.65	05/15/14	3,000,000	2,996,934	2,906,022	0.20%
Corporate Bonds Rated			**395,510,340**	**395,016,309**	**386,073,420**	**26.15%**
ENSCO OFFSHORE CO XI USGG	6.36	12/01/15	9,500,290	9,500,290	9,760,503	0.66%
GLOBAL INDUSTRIES LTD XI USGG	7.71	02/15/25	3,800,000	3,800,000	3,736,920	0.25%
MAYBANK NAVIGATION LLC XI USGG	7.62	07/25/20	3,625,000	3,625,000	3,471,336	0.24%
MAYBANK NAVIGATION LLC XI USGG	5.90	09/16/13	1,990,000	1,990,000	1,931,892	0.13%
ROWAN COS INC XI USGG	5.88	03/15/12	13,635,000	13,635,000	13,704,402	0.93%
TRICO MARINE INTERNATIONAL XI USGG	6.08	09/01/06	625,000	625,000	625,000	0.04%
UNITED STATES TREASURY NOTES	3.00	02/15/09	2,000,000	1,961,023	1,896,094	0.13%
UNITED STATES TREASURY NOTES	3.00	12/31/06	8,000,000	7,990,831	7,910,625	0.54%
UNITED STATES TREASURY NOTES	4.00	02/15/15	20,000,000	18,762,505	18,431,250	1.25%
UNITED STATES TREASURY STRIP	-	11/15/17	2,200,000	1,242,038	1,214,822	0.08%
U.S. Government Direct-Backed			**65,375,290**	**63,131,686**	**62,682,844**	**4.25%**
FEDERAL HOME LOAN MORTGAGE CORP	5.13	05/13/13	20,000,000	20,000,000	19,229,084	1.30%
FEDERAL HOME LOAN MORTGAGE CORP	4.00	07/18/18	5,000,000	5,000,000	4,726,173	0.32%
FEDERAL HOME LOAN MORTGAGE CORP	3.05	01/19/07	5,000,000	4,980,533	4,931,445	0.33%
FEDERAL HOME LOAN MORTGAGE CORP	2.85	02/23/07	20,000,000	19,993,815	19,649,488	1.33%
FEDERAL HOME LOAN MORTGAGE CORP	3.63	02/15/07	10,000,000	9,992,119	9,878,265	0.67%
FEDERAL HOME LOAN MORTGAGE CORP	4.05	06/28/07	15,000,000	15,000,000	14,781,516	1.00%
FEDERAL HOME LOAN MORTGAGE CORP	4.63	08/15/08	10,000,000	9,968,676	9,855,023	0.67%
FEDERAL HOME LOAN MORTGAGE CORP	4.13	04/02/07	15,000,000	14,937,881	14,837,924	1.01%
FEDERAL HOME LOAN MORTGAGE CORP	5.63	03/15/11	10,000,000	10,043,782	10,059,851	0.68%
FEDERAL HOME LOAN MORTGAGE CORP	6.00	06/15/11	15,000,000	14,993,411	15,334,062	1.04%
FEDERAL HOME LOAN MORTGAGE CORP	3.63	09/15/08	14,000,000	14,031,870	13,480,722	0.91%
FEDERAL HOME LOAN PC POOL E00247	5.50	10/01/08	112,392	111,775	111,557	0.01%
FEDERAL HOME LOAN PC POOL E00540	6.00	03/01/13	1,203,960	1,201,368	1,206,923	0.08%
FEDERAL HOME LOAN PC POOL E00659	6.00	04/01/14	1,278,101	1,277,394	1,281,246	0.09%
FEDERAL HOME LOAN PC POOL G10814	5.50	05/01/13	1,933,357	1,932,363	1,901,110	0.13%
FEDERAL HOME LOAN PC POOL G10173	6.00	01/01/09	150,583	150,370	150,883	0.01%
FEDERAL FARM CREDIT BANKS	3.10	01/22/08	10,000,000	9,867,719	9,639,778	0.65%
FEDERAL FARM CREDIT BANKS	4.45	09/23/13	7,000,000	6,758,638	6,549,582	0.44%
FEDERAL HOME LOAN BANKS	4.00	12/19/11	8,000,000	7,697,911	7,424,210	0.50%
FEDERAL HOME LOAN BANKS	4.27	01/17/12	7,000,000	6,796,149	6,569,275	0.44%
FEDERAL HOME LOAN BANKS	4.15	06/25/13	12,000,000	11,277,968	10,993,592	0.74%
FEDERAL HOME LOAN BANKS	4.88	11/15/06	5,000,000	4,994,671	4,987,861	0.34%
FEDERAL HOME LOAN BANKS	4.88	02/15/07	5,000,000	4,999,862	4,976,533	0.34%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	%
FEDERAL HOME LOAN BANKS	4.13	08/13/10	20,000,000	19,985,183	19,018,860	1.29%
FEDERAL HOME LOAN BANKS	3.63	11/14/08	10,000,000	9,989,031	9,608,709	0.65%
FEDERAL HOME LOAN BANKS	3.25	02/26/07	10,000,000	10,000,785	9,853,100	0.67%
FEDERAL HOME LOAN BANKS	3.38	09/14/07	10,000,000	10,029,657	9,730,769	0.66%
FEDERAL HOME LOAN BANKS	4.00	06/13/08	10,000,000	9,911,074	9,718,398	0.66%
FEDERAL HOME LOAN BANKS	4.00	03/30/07	25,000,000	25,000,000	24,693,128	1.67%
FEDERAL HOME LOAN BANKS	4.25	09/12/08	10,000,000	9,891,183	9,739,167	0.66%
FEDERAL HOME LOAN BANKS	4.25	03/15/07	20,000,000	20,013,165	19,817,824	1.34%
FEDERAL HOME LOAN BANKS	4.75	12/12/08	10,000,000	9,947,133	9,826,016	0.67%
FEDERAL HOME LOAN BANKS	4.75	03/13/09	10,000,000	9,900,943	9,810,111	0.66%
FEDERAL HOME LOAN BANKS	5.25	06/12/09	10,000,000	9,954,336	9,925,740	0.67%
FREDDIE MAC	2.88	05/15/07	10,000,000	9,986,956	9,780,502	0.66%
FREDDIE MAC	4.10	01/28/14	15,000,000	15,000,000	14,306,145	0.97%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.30	05/05/08	10,000,000	10,017,230	9,785,507	0.66%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.00	05/09/07	10,000,000	10,000,000	9,867,886	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	5.75	02/15/08	5,000,000	5,215,201	5,021,439	0.34%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.00	05/15/08	5,000,000	4,959,252	5,047,157	0.34%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	0.01	06/01/17	14,600,000	7,307,629	7,958,534	0.54%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	7.25	01/15/10	8,000,000	8,204,262	8,451,362	0.57%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.63	10/15/07	15,000,000	15,358,352	15,214,988	1.03%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	6.63	11/15/10	10,000,000	10,190,208	10,438,143	0.71%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.25	11/15/07	10,000,000	9,960,362	9,709,318	0.66%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	2.88	05/19/08	27,000,000	26,271,108	25,768,241	1.75%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.38	07/17/13	20,000,000	19,446,727	18,654,296	1.26%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.88	11/17/08	10,000,000	9,797,131	9,660,871	0.65%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.38	12/15/08	15,000,000	14,931,923	14,305,416	0.97%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.13	04/15/14	10,000,000	9,496,322	9,141,921	0.62%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.00	08/15/07	10,000,000	9,977,807	9,737,508	0.66%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.55	11/16/07	10,000,000	10,000,000	9,738,014	0.66%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.50	08/15/08	30,000,000	30,000,000	29,426,430	1.99%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	2.20	12/04/06	10,000,000	9,945,680	9,859,870	0.67%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	3.25	05/11/07	15,000,000	14,995,967	14,694,626	1.00%
FEDERAL NATIONAL MORTGAGE ASSOCIATION	4.30	03/09/09	10,000,000	9,747,475	9,739,808	0.66%
FNMA POOL 190985	7.50	08/01/09	347,807	347,808	353,023	0.02%
FNMA POOL 254140	5.50	01/01/17	7,263,862	7,240,969	7,144,405	0.48%
FNMA POOL 254233	5.00	03/01/17	5,567,419	5,422,222	5,383,216	0.36%
FNMA POOL 254631	5.00	02/01/18	4,495,617	4,516,273	4,339,630	0.29%
FNMA POOL 303590	7.00	11/01/10	484,063	484,062	490,786	0.03%
FNMA POOL 313999	6.00	02/01/13	652,778	650,629	655,404	0.04%
FNMA POOL 572220	6.00	03/01/16	358,479	357,719	360,202	0.02%
FNMA POOL 592327	5.50	06/01/16	715,790	703,320	704,130	0.05%
U.S. Government Indirect-Backed			**642,164,208**	**631,163,360**	**620,036,700**	**42.00%**
S&P 500 INDEX BGI FUND B	NA	NA	480,587	68,406,676	83,377,362	5.65%
Equity Index Fund			**480,587**	**68,406,676**	**83,377,362**	**5.65%**
MONTANA RESIDENTIAL MORTGAGES	NA	NA	80,750,505	80,750,504	79,808,901	5.41%
MONTANA PERMANENT COAL TAX TRUST LOANS	NA	NA	208,928,654	208,928,654	208,928,654	14.15%
Mortgages/Loans			**289,679,158**	**289,679,158**	**288,737,555**	**19.56%**
2273 BOOT HILL COURT, BOZEMAN MONTANA	NA	NA	2,073,887	2,073,887	2,082,014	0.14%
CALIFORNIA STREET, HELENA MONTANA	NA	NA	204,835	204,835	213,603	0.01%
2401 COLONIAL DRIVE, HELENA MONTANA	NA	NA	7,183,851	7,183,851	7,676,250	0.52%
1712 NINTH AVENUE, HELENA MONTANA	NA	NA	514,569	514,569	579,626	0.04%
100 NORTH PARK AVENUE, HELENA MONTANA	NA	NA	6,500,208	6,500,208	6,141,593	0.42%
Real Estate			**16,477,350**	**16,477,350**	**16,693,086**	**1.13%**
Total All Other Funds			**1,428,329,840**	**1,482,517,445**	**1,476,243,872**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Enterprise Fund of the state of Montana Board of Investments as of June 30, 2006, and 2005, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets and Statement of Cash Flows for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Enterprise Fund of the Montana Board of Investments and are not intended to present fairly the financial position of the state of Montana as of June 30, 2006, and 2005, and the results of operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana Board of Investments' Enterprise Fund as of June 30, 2006, and 2005, and the results of its operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Introduction Section and Appendix A listed in the fore going table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 14, 2006

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STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF NET ASSETS AS OF JUNE 30, 2006 AND 2005

		2006		2005
Assets				
Current assets:				
Cash and cash equivalents (Note 1)	$	11,242,417	$	17,150,825
Interest receivable		1,013,345		837,279
Notes/loans receivable (Note 1)		8,289,836		9,472,930
Interfund notes/loans and interest receivable (Note 1)		4,184,376		3,695,207
Component Unit notes/loans and interest receivable (Note 1)		1,719,797		1,661,436
Short-term investments at fair value (Notes 1 and 2)		1,517,934		1,806,558
Security lending cash collateral (Note 3)		3,172		0
Prepaid expenses		25		23
Total current assets		27,970,902		34,624,258
Noncurrent assets:				
Restricted investments at fair value (Notes 1 and 2)		4,598,906		4,073,621
Notes/loans receivable (Note 1)		36,840,193		34,081,800
Interfund notes/loans and interest receivable (Note 1)		16,131,846		14,012,262
Component Unit notes/loans receivable (Note 1)		6,575,176		6,644,152
Investments at fair value (Notes 1 and 2)		0		17,910
Capitalized cost of issue (Note 1)		1,299,044		1,392,790
Equipment		2,990		2,990
Accumulated depreciation		(2,930)		(2,686)
Total noncurrent assets		65,445,225		60,222,839
Total assets	$	93,416,127	$	94,847,097
Liabilities				
Current liabilities:				
Advances	$	0	$	415,450
Due to other funds		3,818		2,855
Accrued expenses		24,224		10,773
Accrued interest payable		1,152,351		904,426
Security lending obligations (Note 3)		3,172		0
Arbitrage rebate tax payable		35,493		0
Compensated absences		17,297		19,312
Current bonds/notes payable (Note 4)		84,558,615		85,753,517
Total current liabilities		85,794,970		87,106,333
Noncurrent liabilities				
Bonds/notes payable (Note 4)		2,147,858		2,434,753
Compensated absences		25,247		23,509
Arbitrage rebate tax payable		93,750		114,154
Total noncurrent liabilities		2,266,855		2,572,416
Total liabilities	$	88,061,825	$	89,678,749
Net Assets				
Invested in capital assets, net of related debt	$	60	$	304
Restricted (Note 1)		2,920,959		2,504,067
Unrestricted		2,433,283		2,663,977
Total net assets (Note 7)	$	5,354,302	$	5,168,348
Total liabilities and net assets	$	93,416,127	$	94,847,097

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

		2006		2005
Operating revenue				
Reimbursements	$	6,794	$	4,671
Investment income		570,079		636,922
Security lending income		259		0
Financing income		3,049,576		2,125,548
Total operating revenue		3,626,708		2,767,141
Operating expenses				
Personal services		249,637		252,489
Contracted services		21,890		31,059
Supplies and materials		10,382		3,406
Communications		6,152		6,359
Travel		2,789		4,299
Rent		41,103		40,243
Repair and maintenance		1,072		288
Indirect and other costs		38,294		29,872
Depreciation expense		244		913
Arbitrage rebate tax expense		3,600		66,646
Security lending expense		258		0
Debt service				
Interest expense		2,709,327		1,824,510
Trustee fee expense		70,888		61,628
Bond issuance cost amortization expense		93,746		114,903
Other debt service expense		191,372		189,786
Total operating expenses		3,440,754		2,626,401
Operating income		185,954		140,740
Nonoperating (expense):				
Loss on disposal of fixed assets		0		(2,945)
Change in net assets		185,954		137,795
Beginning net assets		5,168,348		5,030,553
Ending net assets (Note 7)	$	5,354,302	$	5,168,348

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

		2006		2005
Cash flows from operating activities:				
Receipts for sales and services	$	6,794	$	4,671
Payments to suppliers for goods and services		(108,356)		(118,993)
Payments to employees		(248,828)		(238,308)
Net cash (used for) operating activities		(350,390)		(352,630)
Cash flows from non-capital financing activities:				
Payment of principal and interest on bonds and notes		(5,308,863)		(10,616,278)
Proceeds from issuance of bonds and notes		1,103,404		176,996
Payment of bond issue costs		0		0
Net cash (used for) provided by non-capital financing activities		(4,205,459)		(10,439,282)
Cash flows from investing activities:				
Collections for principal and interest on loans		20,807,207		20,285,591
Cash payments for loans		(22,518,931)		(22,370,759)
Purchase of investments		(2,146,092)		(1,333,514)
Proceeds from security lending		259		0
Security lending costs		(258)		0
Proceeds from sales or maturities of investments		1,793,553		23,226,880
Interest on investments		700,215		691,858
Refund from (payment for) arbitrage rebate tax		11,488		(92,027)
Net cash (used for) provided by investing activities		(1,352,559)		20,408,029
Net (decrease) increase in cash and cash equivalents		(5,908,408)		9,616,117
Cash and cash equivalents, July 1		17,150,825		7,534,708
Cash and cash equivalents, June 30		11,242,417		17,150,825
Reconciliation of net income to net cash (used for) operating activities:				
Net operating income		185,954		140,740
Adjustments to reconcile net income to net cash (used for) operating activities				
Depreciation		244		913
Interest on investments		(570,079)		(636,922)
Financing income		(3,049,576)		(2,125,548)
Interest expense		3,065,333		2,190,827
Security lending income		(259)		0
Security lending expense		258		0
Arbitrage rebate tax expense		3,600		66,646
Change in assets and liabilities:				
Increase (decrease) in other assets		(2)		(5)
Increase (decrease) in other payables		13,451		(3,921)
Increase (decrease) in due to other funds		963		(3,229)
Increase (decrease) in compensated absences payable		(277)		17,869
Total adjustments		(536,344)		(493,370)
Net cash (used for) operating activities	$	(350,390)	$	(352,630)
Schedule of noncash transactions:				
Increase/decrease in fair value of investments	$	105,458	$	(8,574)
Total noncash transactions	$	105,458	$	(8,574)

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. The statements include the financial activity administered by the Board in the Enterprise Fund.

b. Presentation of Programs

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Bond Act and the Municipal Finance Consolidation Act.

Economic Development Bond Act programs include:

- **The Stand Alone Economic Development Bond Program provides access to limited economic development projects through the issuance of conduit debt.**
- **The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.**
- **The Family Friendly Business Loan Program provided zero interest loans to qualified business owners who hire participants of the Families Achieving Independence in Montana (FAIM) employment and training component. The Department of Health and Human Services pays the interest on the loans. As of June 30, 2006, all loans are paid in full and the program is inactive.**

Municipal Finance Consolidation Act programs include:

- **The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to ten years.**
- **The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.**

c. Fixed Asset Depreciation

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis, with salvage value, in accordance with state policy.

d. Receivables

The Enterprise Fund notes/loans receivables of $73,247,245 as of June 30, 2006, and $69,225,770 as of June 30, 2005, represent loans made to Montana businesses, state and local governments. The Enterprise Fund notes/loans are classified in three categories as follows:

1) **Notes/loans receivable from local governments and Montana businesses**
2) **Interfund notes/loans receivable from state agency governments**
3) **Component Unit notes/loans receivable from certain state agencies and university units for which the State is financially accountable.**

In May 2006, the Enterprise Fund wrote off a $37,223 loan principal balance for the Meadowlark Mulch loan. The Family Friendly Business Loan Program funded $39,936 for this loan in January 1999.

The InterFund notes/loans receivable as of June 30, 2006 and 2005 includes $493,979 and $342,007, respectively, in interest accruals from state agencies and university units.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of $1,299,044 and $1,392,790 as of June 30, 2006 and June 30, 2005, respectively, represents paid bond issuance costs which have been capitalized and are being amortized, using the straight-line method, over the life of the bonds.

f. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Assets, are as follows:

	June 30, 2006	June 30, 2005
Cash in treasury	$ 24,092	$ 19,787
Cash with fiscal agent	2,110	0
Short Term Investment Pool (STIP)	193,429	196,544
First American Treasury Obligation Fund	11,022,786	16,934,494
Total Cash and Cash Equivalents	$ 11,242,417	$ 17,150,825

The Enterprise Fund invests its operational cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

g. Restricted Net Assets

The Statement of Net Assets for the Enterprise Fund reports restricted assets. Net assets are reported as restricted when constraints placed on net asset use are either:

a. **Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or**
b. **Imposed by law through constitutional provisions or enabling legislation.**

The net assets of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account, MEDB Family Friendly Account and CRP are restricted under bond indentures governing the use of these funds.

h. Investments

Investments are presented in the Statement of Net Assets at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities.

2. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

The Enterprise Fund deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the table below are provided by S&P's rating services.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, Enterprise Fund securities were recorded in book entry form in the name of U.S. Bank National Association as Trustee for the Montana Board of Investments by specific account.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Enterprise Fund investments represent investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds. These investments are excluded from the concentration of credit risk requirement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Enterprise Funds' bond indentures do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the duration method to disclose interest rate risk.

State of Montana Enterprise Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2006 and June 30, 2005. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using duration as calculated by Board staff. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Credit Quality Rating and Effective Duration as of June 30, 2006

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
First American Treasury Obligation Fund	$	11,022,786	AAA	NA
Short Term Investment Pool (STIP)		193,429	NR	NA
U.S. Government Direct-Backed		6,116,840	AAA	2.15
Total Investments	$	17,333,055	AAA	2.15
Securities Lending Collateral Investment Pool	$	3,172	NR	NA

Credit Quality Rating and Effective Duration as of June 30, 2005

Security Investment Type		Fair Value	Credit Quality Rating	Effective Duration
First American Treasury Obligation Fund	$	16,934,494	AAA	NA
Short Term Investment Pool (STIP)		196,544	NR	NA
U.S. Government Direct-Backed		5,898,089	AAA	2.05
Total Investments	$	23,029,127	AAA	2.05
Securities Lending Collateral Investment Pool	$	0	NR	NA

There were no derivative transactions during the above fiscal years for investments held by the trustee.

3. SECURITY LENDING

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP). In fiscal year 2006, security lending transactions were recorded for STIP. In fiscal year 2005, STIP had no security lending transactions.

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's STIP securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 102 percent of the fair value of the loaned securities. The

Board retains all rights and risks of ownership during the loan period.

During fiscal years 2006 and 2005, State Street loaned, on behalf of the Board, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2006 and 2005 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2006 and 2005. Moreover, there were no losses during fiscal years 2006 and 2005 resulting from a default of the borrowers or State Street.

During fiscal years 2006 and 2005, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively, as of June 30, 2006 and 2005. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amounts the borrowers owe the system.

4. BONDS PAYABLE

Long-Term Bonds Payable

Economic Development Bonds (EDB) and Municipal Finance Consolidation Act Bonds (MFCAB)
These bonds are issued under the Economic Development Bond Act, and the Municipal Finance Consolidation Act, for the purpose of assisting Montana's small businesses and local governments in obtaining low cost financing. Outstanding obligations are listed as follows (in thousands):

Bonds Payable as of June 30, 2006

Program	Series	Amount Issued	Interest Range %	Principal Payments FY 2007	Principal Payments @ Maturity	Balance June 30, 2006
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	4,976	6.60-7.75	40	70 (2014)	430
Conservation Reserve Enhancement Program (CRP Bonds) (2)		2,656	6.00-7.50	898	108(2011)	2,656
Total Bonds Payable		$ 7,632		$ 938		$ 3,086
Less Current Portion (FY2006 Principal Payments)						(938)
Total Long-Term Bonds Payable						$ 2,148

Bonds Payable as of June 30, 2005

Program	Series	Amount Issued	Interest Range %	Principal Payments FY 2006	Principal Payments @ Maturity	Balance June 30, 2005
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	4,976	6.60-7.75	450	70 (2014)	880
Conservation Reserve Enhancement Program (CRP Bonds) (2)		3,028	6.00-8.00	1023	33 (2008)	3,028
Total Bonds Payable		8,004		1,473		3,908
Less Current Portion (FY2005 Principal Payments)						$ (1,473)
Total Long-Term Bonds Payable						2,435

(1) The Board issued these bonds to provide funds to purchase the Refunding Bonds of participating Irrigation Districts for the purpose of

prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. While the Irrigation Bonds are not obligations of the State of Montana, the bonds are limited obligations of the Board due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The Indenture does not permit the issuance of additional bonds.

(2) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

Future debt service as of June 30, 2006 is listed below (in thousands):

	2007	2008	2009	2010	2011	2012-14	Total
Principal	$ 938	$ 977	$ 533	$ 280	$ 163	$ 195	$ 3,086
Interest	$ 197	$ 138	$ 76	$ 42	$ 24	$ 24	$ 501
Total	$ 1,135	$ 1,115	$ 609	$ 322	$ 187	$ 219	$ 3,587

Future debt service as of June 30, 2005 is listed below (in thousands):

	2006	2007	2008	2009	2010	2011-14	Total
Principal	$ 1,474	$ 1,005	$ 1,051	$ 78	$ 50	$ 250	$ 3,908
Interest	$ 251	$ 164	$ 97	$ 27	$ 21	$ 40	$ 600
Total	$ 1,725	$ 1,169	$ 1,148	$ 105	$ 71	$ 290	$ 4,508

Current Bonds Payable

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $120 million as amended by the 2003 Legislature. The INTERCAP bonds provide funds for the Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put", but not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund.

The INTERCAP obligations at June 30, 2006 and June 30, 2005, are listed below (in thousands):

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2006	Balance June 30, 2005
1994	7,500	Variable	2009	6,745	6,810
1995	7,500	Variable	2010	6,915	6,995
1997	10,000	Variable	2017	9,605	9,690
1998	12,500	Variable	2018	12,200	12,285
2000	15,000	Variable	2025	14,865	15,000
2003	15,000	Variable	2028	14,815	15,000
2004	$18,500	Variable	2029	18,475	18,500
Total INTERCAP Debt	$86,000			83,620	84,280
Current Portion of Long-Term Bonds Payable				938	1,473
Current Bonds Payable				$ 84,558	$ 85,753

5. OTHER DEBT

Conduit Debt

In this program, the Board is authorized to issue stand-alone industrial revenue bonds, under the Economic Development Act, as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2006	Balance June 30, 2005
Colstrip	October 1989	12/30/15	60,800	50,700	53,100
Yellowstone Energy (BGI)	July 1993	12/31/19	118,345	115,145	116,345
Stillwater Mining	July 2000	07/01/20	30,000	30,000	30,000
Gainey Foundation	October 2002	09/01/14	6,000	4,700	5,140
Total conduit debt			$ 215,145	$ 200,545	$ 204,585

QZAB Debt

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QZAB conduit (no-commitment) debt are listed below (in thousands):

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2006	Balance June 30, 2005
Huntley Project K-12 Schools	December 2000	07/01/13	$ 750	$ 750	$ 750
Bozeman Public Schools	November 2003	11/25/12	1,586	1,586	1,586
Philipsburg Schools	December 2003	12/10/17	2,000	2,000	2,000
Cut Bank Elementary	August 2005	08/18/21	825	825	0
Cut Bank High School	August 2005	08/18/21	625	625	0
Total QZAB conduit debt			$ 5,786	$ 5,786	$ 4,336

6. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2006 and 2005, respectively, the Board committed to make loans to eligible Montana governments totaling $30,929,351 and $39,207,721.

7. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2006 and June 30, 2005 include ($156,004) and ($50,546), respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

8. CONSOLIDATION ACT BONDS, Series 2007

On August 24, 2006 the Board gave preliminary approval to issue a new $15,000,000 bond, Series 2007, to provide funds for the INTERCAP Revolving Loan Program (the "Program"). Funds available to loan will be depleted by March 2007 or earlier based on the Program's historical fundings and repayments as well as large state agency loan draw projections. Finalization of the bond amount and issuance date will occur at the Board's next regular meeting. The issuance will take place in conjunction with the Program's March 2007 bond remarketing period or earlier depending on demand.